PD-AAZ-839
62795

International Science and Technology Institute, Inc.

Headquarters 1429 20th Street, N.W., Washington, D.C. 20036
202/785-0831 • Telex 272785 ISTI UP • FAX 202/223-3865

# EVALUATION OF THE PROJECT 522-0289 PRIVATIZATION OF STATE-OWNED ENTERPRISES IN HONDURAS

**Prepared by**
**The International Science and Technology Institute**
**1129 20th Street, N. W., Suite 800**
**Washington, D. C. 20036**

**For USAID/Honduras**

**March 14, 1989**

U.S. and Overseas Offices

Arlington, Virginia • Lewes, Delaware • Guatemala City, Guatemala • Cairo, Egypt • Jakarta, Indonesia
Rabat, Morocco • Dakar, Senegal

TABLE OF CONTENTS

## EXECUTIVE SUMMARY

### Background

On August 30, 1986, the Government of Honduras (GOH) signed a Project Grant Agreement with USAID/Honduras "to plan and implement the privatization of state-owned enterprises." The purpose of the project has been to assist the GOH to achieve its goal of developing an effective strategy for the divestiture of state-owned enterprises (SOEs). The project was considered to a large extent to be experimental, and would serve to provide other AID privatization initiatives with a series of "lessons learned."

As part of its responsibility in overseeing the implementation of the project, USAID/H contracted the International Science and Technology Institute (ISTI) to conduct an evaluation in order to "examine progress made in implementing the privatization program." Specific objectives included: 1) review of the privatization law; 2) assessment of the adequacy of the institutional mechanisms created to implement the project; 3) determination of the macroeconomic impacts; 4) examination of the policy impact.

The term "privatization" can be defined in many different ways. For the purposes of this evaluation, privatization means the transfer by sale or lease with option to purchase of state-owned companies and/or assets to private enterprise.

The evaluation was conducted using a straightforward methodology, including: 1) content analysis of documents; 2) semi-structured interviews with key public and private sector officials; 3) analysis of secondary data; 4) on-site visits to SOEs. It should be emphasized that data, especially from secondary sources, were incomplete and of questionable reliability.

### Scope of Evaluation

In order to measure the economic and policy impacts of the privatization program, several sets of variables were examined. First, it was necessary to make judgments on the impact of the program within the Honduran political context. While currently there exists general political support for privatization, as the program expands its efforts, opposition, particularly from organized labor, may be expected. Second, the legal framework providing the authority for the privatization program and process was reviewed, in terms of its conceptual sufficiency, limitations and application. Third, a similar examination was made of the policy environment in which the program has been functioning, focusing especially on the continuing process of formulating a comprehensive privatization policy. Fourth, the institutional mechanisms through which privatization of SOEs is taking place, including the Corporacion Nacional de Inversiones (CONADI), the Privatization Commission, the Valuation Commission and the Negotiation Commission were analyzed with respect to the roles they have been playing in the divestiture process, measuring results to date. Finally, the economic impacts of the privatization program were quantified according to major macro indicators, including: 1) external debt reduction; 2) foreign capital inflows; 3) balance of payments; 4) external trade; 5) employment and productivity; 6) public sector budget; 7) total economic gains.

Findings

The following is a list of the principal findings of the evaluation. These are addressed in detail in the analysis.

- The project is achieving its goal of privatization of 12-15 companies, as set forth in the Project Paper.

- Permanent annual economic gains from the project were evidenced in budget gains, new jobs, additional foreign exchange, new foreign and domestic investments resulting in more production.

- A more appropriate and significant indicator of success, however, is the value of the assets divested. According to that measure, the project has been more successful, having privatized an estimated 40 percent of the total CONADI asset portfolio.

- Favorable conclusions were found with respect to the project's economic impact as measured by such indicators as number of jobs generated, impact on foreign debt reduction and balance of payments, and contribution to GDP.

- The impact of the project on women could not be estimated as the result of a lack of sufficient data.

- The project has also achieved its objective of maintaining a low profile, letting the GOH take the visible initiative in privatizing SOEs.

- The privatization process is extremely detailed and complex, but this has effectively forestalled attempts to circumvent the process and compromise its integrity and credibility.

- CONADI continues to be extremely poorly managed and constitutes an obstacle to more efficient privatization of its assets.

- COHDEFOR has not assigned high priority to privatization of its assets and has moved exceedingly slowly in implementing the divestiture process.

- There is still no comprehensive privatization policy, but rather a privatization process geared to the divestiture of specific parastatals.

- The management of the TWG lacks efficiency and strong direction, but nevertheless has been able to help produce positive results.

- "Marketing" and public education activities have been insufficient, and there is a general lack of public knowledge of what privatization in its various forms means, and the economic and social benefits it can produce.

- To date there has been little organized opposition to privatization. However, as the project attempts to expand its activities to divestiture of other state-owned enterprises, especially basic services, significant opposition from the labor sector may be expected.

- The TWG has created an effective debt-for-assets swap mechanism, which has been used in privatization of three SOEs.

Conclusions and Recommendations

The overall conclusion is that the privatization project is achieving measurable progress in meeting its goals. A legal framework has been established to permit divestiture of SOEs with a minimum of irregularity. The economic benefits of the project to date have been positive, and projections indicate even more favorable results as the remaining large SOEs are privatized. Specific conclusions include:

- The political will to put into place and sustain the necessary legal framework for a successful privatization project has been demonstrated, although political commitment to the project has vacillated on occasion.

- A comprehensive policy framework has yet to be established, principally because so much of the statutory and programmatic focus has been on specific institutions, CONADI in particular.

- There is a general lack of economic policy coordination, resulting in policy incompatibilities with potentially negative consequences for privatization efforts.

- Opposition to privatization has been minimal, although as efforts to expand the project continue, especially to state-owned services, organized labor will begin to mobilize against divestitures. It is vital to begin work immediately with organized labor to educate the leadership with respect to the various types of privatization and potential benefits.

- Decree 161/85 and accompanying regulations have created a detailed and prescriptive privatization process. This was done intentionally in order to preserve the integrity of the process both by keeping it "transparent" and subject to a series of checks and balances. This has resulted in a trade-off between efficiency and effectiveness, which has worked successfully. The law should remain intact until the holdings of the specified parastatals are privatized, or other disposition is made.

- When the legal and "policy" foundations of privatization are modified to focus on concepts rather than specific institutions, a mature policy framework will have been put into place.

- Both the policy and project have been experimental, and the major institutional actors have all undergone a learning process which has yielded positive results - some of which should be considered for replication.

- The greatest inefficiencies in the process are institutional. CONADI in particular has been a major bottleneck.

- As the process moves forward, and more CONADI assets are divested, a decision will have to be made on what to do with the parastatal. CONADI could either be reorganized into a second story bank, have its remaining assets transferred to another agency such as the Central Bank, or be allowed to survive in greatly reduced capacity. Finally, and perhaps the preferred option, could be to appoint a task force reporting to the Privatization Commission, and supported technically by the TWG, to develop a plan for final phase out of CONADI operations and divestiture of remaining assets.

- There exists confusion as to whether privatization is a means or an end. It is important to define privatization as one of several means, or strategies, toward economic growth and development.

- Correlatively, there is a need to require prospective investors to submit documentation indicating to what use they intend to put acquired assets.

- There has been a lack of public education efforts aimed at the public at large and at labor in particular. It is imperative to develop strategies to deal with labor in particular.

- TWG management needs to be strengthened, although it is important to note that the Director has been successful in maintaining a low profile in order to maintain a public perception that the project is a GOH and not USAID/H initiative.

- The Center for Privatization needs to improve significantly its relationships with the TWG and increase its support for the group. Its project oversight and management responsibilities have been substandard.

- The skills requirements for the TWG director were inappropriate. Given the nature of his tasks, the director should have been an individual with substantial public sector experience, knowledgeable about policy and politics, particularly in the Latin American environment.

- The lack of a sustained research component to the project, which is an R&D effort, has been a critical oversight.

- Permanent annual economic gains have been generated as a result of project activities. These include: budgetary gains; additional foreign exchange; new jobs; new foreign exchange; new foreign and domestic investment, resulting in greater production. Emphasis on privatization of SOEs <u>which can be operated profitably</u> should be the major goal, as they yield multiple economic and social benefits.

- Among other problems caused by the lack of a research component in the project has been the inability of the team, in post hoc fashion, to determine impacts of privatization on women.

## 1. Introduction

### A. Background

On August 30, 1986, the Government of Honduras (GOH) signed a Project Grant Agreement with USAID/Honduras "to plan and implement the privatization of state-owned enterprises" (Project Agreement, 1986: 1). Initial "bridge" project operations, however, had already begun in July 1986. It was not until April, 1987, that USAID/H entered into a contract amendment with the Center for Privatization in Washington, D.C. to provide the requisite technical assistance through establishment of a Technical Working Group (TWG), in Honduras.

The purpose of the project has been to assist the GOH to achieve its goal of developing an effective strategy for the divestiture of state-owned enterprises (SOEs). At the same time, the project was considered "to a large extent" to be experimental (Scope of Work, 1989: 2), and would serve to provide other AID privatization initiatives with a series of "lessons learned." Specifically, the project has had as its primary objective the provision of assistance to the GOH in the divestiture of "approximately 12-15 SOEs," demonstrating the "feasibility of implementing a privatization program in Honduras," making a "significant contribution to sustained economic growth" (Scope of Work, 1989: 2).

According to the Scope of Work, "The primary purpose of the evaluation is to examine progress made in implementing the privatization program" (Scope of Work, 1989; p.1). Objectives include: 1) review of the privatization law and examination of how the GOH and TWG have been able to adapt to its provisions; 2) assessment of the adequacy of the institutional mechanisms created to implement the project; 3) determination of the macroeconomic impacts; 4) examination of the policy impact, specifically if attitudes toward statism and the 'rules of the game' have changed. The SOW also called for a review of "lessons learned" by way of developing a strategy for design of a second phase to be supported by USAID/H.

### B. Approach

As a general methodological approach, the evaluation will measure the progress to date in achieving the goals set forth in the Project Paper. However, it is important to bear in mind that this project has been essentially experimental in nature and judgments on its performance and impact, at least in terms of goal attainment, have to be placed in that context. That is, while it is essential to construct goals for any project, pilot efforts require a more tempered set of expectations. The very nature of an experimental project demands flexibility and the ability to make adjustments in strategies as unanticipated events occur, while maintaining the integrity of the overall purpose.

## C. Methodology

A primary goal of the evaluation is to measure the impact of the privatization project on the Honduran economy. While the performance of relevant institutions integral to the privatization process - i.e., CONADI and COHDEFOR, the Valuation and Negotiation Commissions, and the TWG - will be reviewed, the purpose is not to assess their performance *per se*. Judgments on their performance will serve basically to draw conclusions about the overall economic impact and policy sufficiency of the project. A second goal of the evaluation is to review the legal and policy frameworks in which the project has functioned in order to determine their adequacy. Clearly, the aggregate economic impact of SOE privatization is best understood within the legal and policy environment that conditions the process.

Specific analytical methods included: 1) semi-structured interviews with key private and public sector officials, and informal interviews with selected institution staff (see Annex A for list of respondents); 2) review and content analysis of selected project and institutional documents (see Bibliography); 3) analysis of secondary data; 4) on-site visits and observations.

## D. Caveats

While obstacles to evaluations are to be routinely expected, it is important in this case to note specifically two important problems which impeded the analysis. First, cooperation from CONADI management was lacking. After repeated attempts on the part of the Team Leader and USAID Project Officer, it was finally possible to obtain a critical appointment with the CONADI President, but only at the last moment. Similarly, data were promised and delivered only after the eleventh hour meeting with the President, except in the case of one very helpful and cooperative member of the senior staff. Second, data were generally either non-existent, conflicting, unreliable or incomplete, particularly for economic indicators.

By contrast, officials of other institutions were cooperative and accessible, providing requested information, although similar problems of reliability and completeness occurred.

## E. Operational Definition

The term "privatization" can be defined in many different ways. For the purpose of this evaluation, privatization means the transfer by sale or lease with option to purchase of state-owned companies and/or assets to private enterprise.

## II. Principal Findings

The following is a list of the principal findings of the evaluation. These are addressed in detail in the analysis.

- o The project is achieving its goal of privatization of 12-15 companies, as set forth in the Project Paper.

- o Permanent annual economic gains from the project were evidenced in budget gains, new jobs, additional foreign exchange, new foreign and domestic investments resulting in more production.

- o A more appropriate and significant indicator of success, however, is the value of the assets divested." According to that indicator, the project has been more successful, having negotiated the sale of an estimated 40 percent of the total CONADI asset portfolio. (This figure is an estimate based on incomplete data provided by CONADI and the TWG and reflects an order of magnitude, rather than a precise statistic, comparing the estimated sale value of companies privatized and in the pipeline as a percentage of total risk value.)

- o Favorable conclusions were found with respect to the project's economic impact as measured by such indicators as number of jobs generated, impact on foreign debt reduction and balance of payments, and contribution to GDP.

- o The impact of the project on women could not be estimated as the result of insufficient data.

- o The project has also achieved its objective of maintaining a low profile, letting the GOH take the visible initiative in privatizing SOEs.

- o The privatization process is extremely detailed and complex, but this has effectively forestalled attempts to circumvent the process and compromise its integrity and credibility.

- o CONADI continues to be extremely poorly managed and constitutes an obstacle to more efficient privatization of its assets.

- o There is still no comprehensive privatization policy, but rather a privatization process geared to the divestiture of specific parastatals.

- The management of the TWG lacks efficiency and strong direction, but nevertheless has been able to help produce positive results.

- "Marketing" and public education activities have been insufficient, and there is a general lack of public knowledge of what privatization in its various forms means, and the economic and social benefits it can produce.

- To date there has been little organized opposition to privatization. However, as the project attempts to expand its activities to divestiture of other state-owned enterprises, especially basic services, significant opposition from the labor sector may be expected.

- The TWG has created an effective debt-for-assets swap mechanism, which has been used in privatization of three SOEs.

## III. Political Context

Progress in the privatization project is apparent, as is the momentum it has engendered to divest state-owned enterprises. However, high expectations for expanded privatization should be tempered, as 1989 is an election year in Honduras. By mid-year, all attention, in and out of government, will be turned to the presidential campaign. If managed correctly, the temporary delays encountered in actual privatizations can be compensated by enhanced public awareness for the value and potential benefits of privatization, particularly in view of the fact that both presidential candidates have embraced privatization as a necessary and beneficial economic strategy.

### A. The Privatization Environment

The privatization project is carried out in a complex political and institutional environment. At a regional level, Central America is now completing a decade of profound political conflict characterized by revolution, civil war, political polarization and economic decline. Public and private sector investment has been minimal, foreign investment has dwindled, and national income has declined. Every Central American government has experienced a fiscal crisis while confronting expanding social needs without the financial base to respond adequately. While efforts have been made to restructure foreign debt payments, prospects for recovery remain bleak in the short- and long-term.

In Honduras, the promise of democratic transition initiated in 1981 has been limited by the economic crisis. A major impediment to recovery has been the country's foreign indebtness, approaching US$3 billion. CONADI'S total indebtedness alone nears $400 million dollars. Service on this debt could reach an estimated $125 million for the 1980's (Project Paper: Privatization of State-owned Enterprises, 1986:11).

The political environment for privatization is multifaceted. Within the GOH privatization is generally supported. While the legal environment of privatization has ben shaped through executive-legislative cooperation, in practice the executive has had primary operational responsibility. However, since privatization as a process cuts across so many executive branch agencies (Presidencia, Controlaría, Hacienda, Economía, Recursos Naturales, Banco Central) and parastatals (CONADI, BANADESA, COHDEFOR, COHBANA), many interests and careers are perceived to be at risk every time a firm's books are opened.

In addition, given the pressure to reduce the public sector deficit, the parastatals are obvious targets for institutional oblivion, particularly CONADI. Their respective executive managers are caught in a difficult position between wanting to serve the larger objectives of the government and responding to the compelling needs of SOE employees for jobs, the life blood of political networking in the country.

Even though the Congress has periodically involved itself in the privatization process, it has left the leadership to the executive branch. Through its various committees and in full sessions, the Congress has gradually focused on specific aspects of the process, particularly in cases where misfeasance is suspected. For instance, the Congress played a major role in forcing COHDEFOR to reconsider the terms of its lease-sale transfer agreement on FIAFSA.

The political environment for privatization so far has been generally non-controversial, although it has been somewhat complicated by an unending stream of political skirmishes during 1988, mixing personality and policy questions related to the country's economic strategy. For instance, the President's leading economic adviser quit the government during mid-1988, claiming that his advice was being ignored. The Ministry of Economy's leading foreign investment officer was fired when he accused the government for lack of support.

CONADI did not escape the spleen of Honduras politics during 1988. For example, within the government there had been much public debate between CONADI and BANADESA over which of the two parastatals actually has controlling interest in Lacteos Sula. The issue was finally decided by President Azcona in late 1988, but not before extensive negative publicity added to an already poor image of CONADI.

In other cases, CONADI assets were temporarily embargoed by one of the country's top business leaders when political considerations apparently led CONADI's Board of Directors to delay compensation to one of the leader's banks. Then two of the country's most distinguished citizens became embroiled in a public debate over which of their political parties was more committed to cleaning up the CONADI mess (<u>El Heraldo</u>, March 4, 1988). Shortly thereafter, the Auditor General voided a pending agreement between CONADI and one of the principals of a company to be privatized (<u>El Heraldo</u>, May 7, 1988). Not to be outdone, the Attorney General denied that CONADI had given him authorization to initiate legal proceedings against those implicated in malfeasance (<u>El Heraldo</u>, May 13, 1988).

To complicate matters even further, CONADI's current president was censured by his own Board of Directors and asked to resign. The resignation was not accepted by President Azcona. As recently as the end of January 1989, the National Party presidential candidate called for CONADI's president to step down (<u>La Prensa</u>, January 23, 1989).

When it is not being criticized from without, CONADI is being debilitated from within by management and institutional deficiencies. Its uncertain status further complicates this volatility. Within CONADI, low morale combines with the natural bureaucratic survival instinct in a mix that impedes institutional responsiveness to divestiture efforts.

The good news is that the TWG has not been dragged into the incessant political fighting over CONADI, and that there is broad support for dissolution of the parastatal. It has gone about its work with deliberation and seriousness--testimony to non-confrontational and patient leadership. Moreover, despite the difficulties associated with privatizing of CONADI based enterprises, there seems to be a continuing public commitment to the process. TWG public relations specialists claim that negative information and views on privatization have declined during the past year.

B. Emergent Problem Areas

1. Impediments

The objectives of the privatization project need to be defined more precisely. While it is obvious that the country's important decisionmakers have been able to distinguish privatization as a process from CONADI as a problem, there has been less clarity as to the nature and orientation of the on-going process.

Key opinion makers in the country seem to be confusing specific CONADI privatization efforts with the more general discussions about privatization of key public services (electricity, telephones, sewerage) that periodically emerge in public discourse. This confusion is impeding the TWG-led effort to effect a smooth divestiture process.

Organized labor now shows greater awareness of the issue and its potential impact. Indeed, if public announcements and recorded statements are any indication, opposition to privatization seems to be growing, particularly among the more militant labor unions and federations in the country.

2. Bottlenecks

The TWG Privatization Process has encountered a number of bottlenecks that reduce the project's efficiency:

a. The Privatization Commission is not as active as it should be. While the TWG appears to have a good working relationship with the Commission's Chairman, little progress has been made in its operationalization. For the remainder of the Azcona presidency, little energy should be expended in attempting to implement the Commission. Even though it could have been valuable to the TWG, its restructuring will have to wait until the next administration. Indeed, this interim period offers the opportunity to evaluate the feasibility of the same structural arrangement under the next Honduran president.

b. The Valuation Commission seems to have developed an effective working relationship with the TWG. However, the former's reviews are not emerging with the pace necessary to keep the process running smoothly. This problem seems to be more one of capacity than will. The Commission has now been provided more staff assistance from the TWG.

c. Evidence suggests that lack of will and competence make CONADI itself a bottleneck in the process.

d. While some have raised the issue of political will in contradistinction to political commitment on the part of the President of the Republic, the evidence points, indeed, to the existence of political will to bring about privatization. The fact that a comprehensive law and set of regulations were passed and are in effect is perhaps the most persuasive argument in support of the conclusion that the political will to privatize exists. In addition, that both presidential candidates support privatization efforts is another sign of a continuing favorable political climate. Finally, the fact that the project itself is working, despite delays and almost inevitable bureaucratic infighting, is yet further testimony to the existence of the necessary political will to support privatization efforts. This is a key finding. While political will is not the only condition necessary for privatization to succeed, without it privatization could not take place at all.

By contrast, there is some question as to the consistency of commitment, at least as might be interpreted through the operation of the Privatization Committee, chaired by the President's chief economic advisor. The Committee has operated in a detached manner, and its chairman considers its principal role to be only that of "vigilante del proceso," guaranteeing the integrity of the process. In the final analysis, the necessary political conditions have been created and maintained to permit the privatization project to begin to achieve some notable successes.

3. Organized Labor

The organized labor movement in Honduras is one of the region's strongest and most active. It has a history of militancy and political activism. On a number of occasions, labor leadership has played an important role in forging political coalitions and developing consensus around important issues. Despite generational, sectoral and ideological differences, there is a general commitment by labor to unite its efforts for the benefit of the working and popular classes.

The country's most important labor organization is the Honduran Workers' Confederation (CTH), organized in the early 1960s. Affiliated with the AFL-CIO, the CTH has pursued a conservative strategy to press its interests. It has often been criticized for its lack of militancy and its willingness to compromise. As a more combative alternative to the CTH, the General Workers Center (CGT) was established in 1970 and given legal recognition a decade later. The CGT has a Christian Democratic orientation and is affiliated with the Latin American Workers Confederation (CLAT). Its most important affiliate is the National Peasants' Union, the country's second largest rural labor organization. A major new union is the Unity Federation of Honduran Workers (FUTH), which emerged in 1980, as the country was preparing to return to democratic rule. FUTH has a pro-Marxist orientation. It received legal recognition in early 1989 from the Minister of Labor.

In general, labor has a good working relationship with national decisionmakers. Personalism, a low level of consciousness, the tradition of co-optation as a means to manage conflict, and relatively cordial relations between the military and labor give a moderate quality to labor-state relations. Present efforts to promote a "national dialogue" have given labor the opportunity to unify around critical issues of political economy. Privatization has not yet emerged on the agenda, but no doubt will if the dialogue continues, certainly if and when current privatization efforts begin to expand into the public service sector.

a. <u>Opposition to Privatization: The Players:</u>

Despite the cordial relationship between labor and political leadership, the leading opponents of privatization can be found in the country's most active and militant labor organizations, especially those affiliated with the FUTH. The union of the National Company for Electrical Energy (STENEE), a state-owned enterprise, and the union of the nationally-owned Honduran Bottling Company (STIBYS), have indicated their opposition to privatization. Both organizations have visible and forceful leadership with a clear vision of national problems and their potential solutions.

Other labor organizations have stated their opposition to the process as well. For instance, unions affiliated with eighteen autonomous institutions have publicly opposed privatization; the country's leading teachers' union (COLPROSUMAH) has shown opposition; and a number of rural peasant organizations have come out against the measure. This opposition has not yet crystallized to the point that it pervades discussions among labor, the private sector and politicians. However, the on-going national dialogue would be an excellent opportunity to bring concerns about privatization to the bargaining table.

From discussions with leaders in these and other unions, it appears that privatization is perceived to be not only a process of divesting the state of public property and turning it over to the private sector, but also a code word--referring to the complex of other public and private efforts to restructure economic relations in the country. These measures include reduction of the fiscal deficit and public indebtedness, equilibration of the balance of payments, modifications of monetary policy and prompt payment of the foreign debt.

"Solidarism" is another concern of organized labor, which associates it with privatization.[1] While the movement has been very successful in Costa Rica, it has not yet developed much momentum in Honduras. However, recent examples of nascent solidarista efforts have given organized labor a taste of what may come. For instance, when Rosario Resources closed El Mochito mine and later sold it to another company, the militant union was broken in the process, only to be replaced by a solidarista arrangement. STIBYS publicly denounced solidarism in mid-October 1988, stating that "...every day the workers understand that their genuine organization is the union and not Solidarismo." Finally, the November 1988 SITRATERCO strike was partly motivated by growing evidence that the Tela Railroad Company was promoting the development of a parallel solidarista organization. Union-driven efforts to prohibit solidarism through reform of the Labor Code can be expected in the near future.[2]

A final union fear of privatization is extranjerización ("foreignization") of the economy. While the private sector and government are seeking new foreign investment, organized labor is increasingly concerned about the prospect of greater foreign ownership of Honduran property. For some of the country's leading labor organizations (CGT, FUTH, FEFSITRANH), privatization and extranjerización are synonymous.[3] Indeed, one respected Honduran columnist recently wrote about this problem. He stated that: "The well-supported privatization campaign...will result as has already been warned, in the "foreignization" of the majority of firms being

---

[1]Solidarism is a movement that promotes management-worker collaboration as an alternative to unionization and collective bargaining. Solidarism undermines strong workers' unions and is both an alternative to the organization of unions in new enterprises as well as a union-busting device in old enterprises.

[2]In its May Day (1989) public announcement, the FUTH called for reforms to the Labor Code to prohibit the development of solidarism in the country.

[3]See "Planteamiento unitario de las fuerzas sociales de Honduras," La Tribuna, April 28, 1988.

privatized because the Honduran lacks faith in his country and in his government."

b. <u>The Philosophical and Pragmatic Aspects of Labor's Position</u>:

Organized labors' opposition to privatization has both a philosophical and pragmatic dimension. Philosophically, labor views privatization as control of productive assets by the private sector. Both the conservative and radical labor unions believe that productive assets, particularly those that are vital national resources, should be under the control of the state. Thus, there seems to be consensus that public services such as communications, electricity and water should continue under state ownership. Indeed, leaders from both labor organizations believe that these enterprises could operate at a profit for the state if they were less politicized by the country's senior political leadership.

An element of this opposition also questioned the Honduran private sector's capacity to manage the complex construction, management and service delivery aspects of the transfer of vital services to the public. One conservative labor leader indicated his apprehension that the state would end up carrying the costs for service delivery to rural areas, while the private sector would end up with all the profit. Or, worse, foreign capital would come to dominate and control vital public services.

Indeed, on this question, even the country's private enterprise council (Consejo Hondureño de Empresa Privada) has publicly stated its concern about the privatization of the country's public services. In a July 6, 1989 <u>El Heraldo</u> article, COHEP's president stated such services are "part of the country's security and are very delicate."

However, beyond the public services, there are philosophical differences in organized labor's approach to privatization. While the country's conservative labor organization shows some willingness to move forward with the liquidation of CONADI's assets, leaders from the radical labor organizations are opposed. They view CONADI's liquidation as a "reprivatization." They question the wisdom and propriety of turning these devalued assets over to what they perceive to be the same group who mismanaged them in the first place. Moreover, they reason that the state should strengthen itself for the benefit of the people. CONADI enterprises are a means to achieve this goal, for they can be profitable given the right market conditions. Further, they view CONADI's liquidation as inevitably leading to more foreign ownership, control and repatriation of profits.

The conservative labor organizations take a more pragmatic approach to the privatization of CONADI held enterprises. As one leader stated: "we do not oppose this privatization because we want to take advantage of it." Indeed, some enterprises are viewed by labor as being prime targets for labor ownership. Of particular interest is the Hotel Plaza, where a CTH union affiliate is searching for financing to purchase the property. According to the CTH, CONADI is "opposed" to labor's purchase of this property because it already has an informal commitment with private hoteliers in the country.[4]

Moreover, even while the CTH recognizes inherent weaknesses in the private sector, it also is cognizant of the government's history of corruption and poor administration. It believes that CONADI enterprises, if revived, can generate employment. However, it is concerned about the solidarism movement and its relationship to foreign enterprise.

Thus, the position of the radical labor organizations is not subject to negotiation. It flows from a view of the world that is ideologically and philosophically rooted in statism and worker class consciousness. The position of the conservative labor unions may have some flexibility, especially involving the CONADI enterprises.

In the future, labor's positions will in part be determined by overall business and economic development. Without an economic recovery in the very near future, vigorous opposition to privatization of the public services should be expected from a united labor movement. With economic recovery, there will be more flexibility, especially if unions are not under the multiple assaults of restructuring and solidarism.

---

[4]An obvious recommendation to be made here is that it may be in the larger interest of the privatization efforts to promote the sale of the Hotel Plaza to the CTH affiliate. Aside from the compelling social and economic logic to this, an important political advantage may be scored. However, the evaluation team is not suggesting that the normal standards for sale/auction should be circumvented.

If the country's new political leadership is interested in expanding privatization to include the public services, it most certainly will engender labors' antagonism if this effort takes place in a larger climate of hostility to the role of organized labor in the Honduran economy. If, however, a more conciliatory strategy is followed toward labor, then concrete gains for this group may serve to minimize the antagonism of at least some unions toward the transfer of state-owned services to the private sector.

## IV. Legal Framework

The presence of sufficient political will to support privatization was codified in Decree 161/85, as amended, and the accompanying regulations. Passage of the law revealed a significant degree of partisan and intragovernmental cooperation. The fact that CONADI had become such a major scandal no doubt contributed to the creation of a political climate to permit relatively smooth enactment of the statute and promulgation of the regulations.

The law provides a firm legal foundation or framework for the privatization project. Both the statute and regulations are extremely comprehensive and prescriptive. They spell out in detail the exact processes which are to be followed in the transfer of SOEs to private investors. The regulations actually read like a procedural manual.

### A. "Transparency" vs. Efficiency

The reason the law and regulations are so detailed is to insure that the process of privatization remains free of self-dealing and conflict of interest. This lengthy, complicated and cumbersome system was established similarly to produce "transparency," or openness, in order to create public confidence in the fairness and legitimacy of the process.

There are at least six Ministries and other GOH institutions involved in the process,[5] mostly in an operational way. Chart 1, on page 15, indicates the number of institutional actors and their respective roles. While there is no question that the process is complex, it has been intentionally designed to include many different agencies in the decisionmaking chain in order to produce a system of checks and balances.

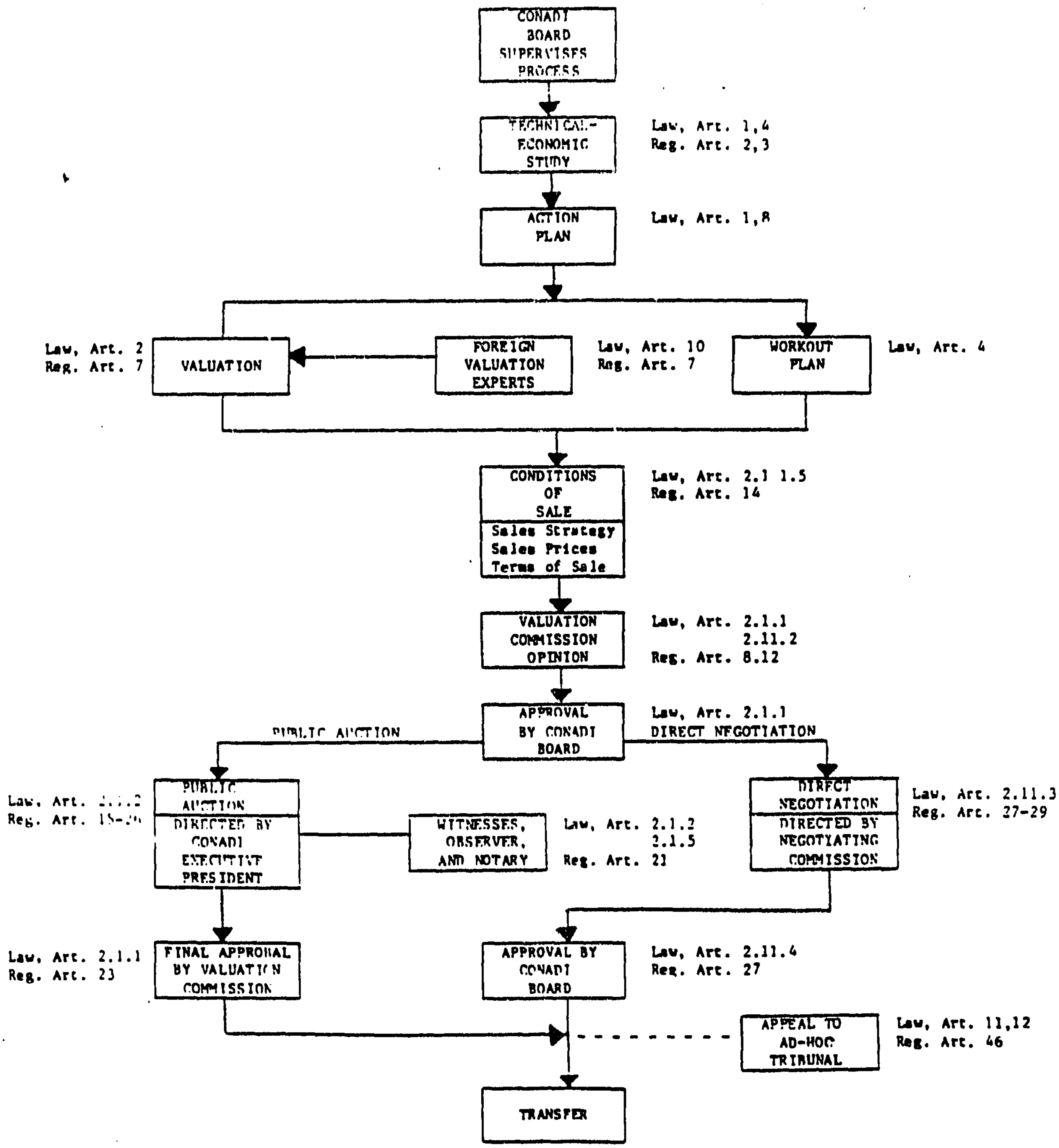
The drafters of the law were well aware of the need to trade efficiency for legitimacy. Criticism about the length and complexities of the process has been widespread; at the same time there is consensus that it has produced results. There appears to be a begrudging acceptance of the need to keep the process intact to insure its integrity and positive outcomes. Certain aspects of the law and regulations could be modified to speed up the process at no cost to its integrity. However, it is better not to open the legislative Pandora's Box. To do so might invite unwelcome changes to the law. Instead, it is more feasible to make improvements in

---

[5]Ministries of Finance, Economy, Administrative Propriety, Central Bank, the Attorney General's Office and General Accounting Office.

CHART 1

OVERVIEW OF DIVESTITURE PROCESS
ACCORDING TO LAW 161-85 AND REGULATION 947-85



the efficiencies in the operational performance of the process, which will be discussed under "Institutional Mechanisms."

B. Irregular Practices:

Irregular business practices, by U.S. standards, too often are way of life in Latin America. Low salaries, weak institutions, constantly changing rules of the game all contribute to an uncertain business climate. The privatization law and regulations were drafted to reduce if not eliminate possible self-dealing and conflict of interest in the process. Based on all available evidence, that objective has by and large been achieved, with some relatively minor exceptions.

Whatever less than acceptable practices exist tend to occur prior to implementation of the actual formal privatization process itself, i.e., the auction of or direct negotiation for SOEs. A frequently cited example was in the case of INACERO. In this instance, a major banker who is also a public official at the highest levels held mortgages on INACERO, a bankrupt steel company owned by CONADI. He froze the CONADI accounts in his bank until an arrangement was worked out whereby he was given bonds in exchange for the accumulated mortgage debt. The official/banker then attempted to buy another SOE, CONTESSA, with the bonds, although the regulations prohibit purchase of SOEs with bonds. By invoking the law, which bars the use of bonds for acquiring SOEs, he was blocked from making the purchase.

A second case, a local cause celebre, involve FIAFSA, an SOE owned by COHDEFOR. In this instance, an American businessman who owns a lumber company in Honduras, YODECO, leased and then purchased through a sales contract a lumber mill, along with concession rights to state owned and managed forest. This was done outside the established statutory steps governing privatization. The COHDEFOR legal advisor counseled the General Manager that the law did not require COHDEFOR to follow the established process, as the wording of Decree 161-85 was in his opinion not binding, and convinced the Director of COHDEFOR to negotiate the contract directly.[6]

---

[6]According to a senior manager and legal advisor of COHDEFOR, the then counsel to the parastatal was able, through this kind of negotiation, to profit personally, although not illegally, by charging "honoraria" for his services at the same time he was on the payroll. While this is not illegal, it does involve questions and judgments on ethics, and points to some of the irregular practices which can occur in the privatization process.

The result was that Congress requested the Comptroller, Attorney General and Director of Administrative "Propriety" (roughly analogous to GAO) to review the conditions and procedures of the sale and issue respective opinions. The COHDEFOR Board of Directors has appointed a commission and sub-commission to investigate the sale and make recommendations as to next steps. At the time of this writing, it appears as if a legal saneamiento will be conducted of the company since its acquisition by YODECO, and a recommendation made to the COHDEFOR Board whether or not to renegotiate directly with YODECO or proceed to an auction (recognizing and compensating for the value added produced by YODECO in the interim).

The third irregularity involves a major food processing firm, MALI. In this case the former owner has been successful in blocking the sale. CONADI was originally a partner with the owner, who also owns a holding company, Galaxia. As MALI began increasingly to lose money, CONADI suggested capitalizing of the additional debt. The Galaxia owner refused to participate in the capitalization and CONADI increased its ownership to 99.1 percent, forcing out its partner. In the meantime, MALI had signed a distribution contract with Galaxia, which CONADI refused to honor after capitalizing the new debt. The result was that the former owner initiated a suit against CONADI for breech of contract, while CONADI foreclosed on its own company, MALI, as an initial step to offer it for privatization. To date, CONADI still has not forwarded the valuation report in order to hold an auction of the asset.

While what occurred above does not necessarily constitute misfeasance, it is an indication of both the complexities involved in the privatization process and a demonstration of CONADI inefficiencies. In addition, it set the stage for, at best, a questionable set of events detrimental to CONADI. Before the foreclosure took place, the then new CONADI director hired an attorney to handle the case, bypassing the firm which already had been retained and was proceeding to go to court. The CONADI director, through his new lawyer, attempted to promote an out-of-court settlement with the Galaxia owner. In so doing, the two parties drafted and signed, along with the then Chairman of the CONADI Board of Directors, a memorandum of understanding ("Instrumento 3," January 19, 1988) in which the CONADI president recognized a debt of 17 million Lempiras to Galaxia, as a result of a breech of the distribution contract. All this was negotiated in private, without the knowledge of the TWG or, apparently, the CONADI legal staff. When the Instrumento was brought before the Board, however, it was not ratified and thereby effectively revoked.

Now the owner of Galaxia, in his suit against CONADI demanding 17 million Lempiras, has offered as evidence of the fact of the debt the Instrumento. So far the courts of first instance and first appeal have decided in favor of the plaintiff.

On the one hand, despite the genuine effort to construct a law and regulations to prevent irregular practices, the privatization process is and will continue to be subject to attempts either to bypass or distort it. In many ways, members of the private sector are as much an impediment to privatization as are obstructionist bureaucrats. On the other hand, the process is still intact and moving forward, testimony to the strength of the law. Finally, it should be kept in mind that the entire process is relatively new to judges, lawmakers, policymakers, public officials and members of the private sector, and still going through a "shake down period." There are a few examples from which they can draw guidance, making the learning process even more difficult.

C. Limitations

While the law appears to have been able to achieve the objective of protecting the integrity of the privatization process, it has done so at the cost of greater efficiency. However, to a large extent this has been an inevitable trade-off. If the largest SOEs can be successfully privatized, the law will clearly have worked.

In terms of efficiency versus effectiveness, the limitations imposed by the privatization statute have been manageable to date. Perhaps a more serious constraint is the fact the law does not provide a comprehensive privatization framework, but is focused on four specific parastatals: CONADI, COHDEFOR, COHBANA and BANADESA. This deficiency in the legal framework has policy implications which are addressed below.

## V. Policy Framework

Passage of Decree 161/85 was a significant step in the development of a competent legal foundation for the privatization project. In addition, it furnishes many of the conceptual and operational underpinnings for the formulation of a comprehensive privatization policy. To date, however, that kind of broad policy still does not exist. In view of the fact that the privatization project was conceived as an experimental and phased effort, it is understandable that a policy based on broader conceptual outlines of privatization has still to be fashioned.

### A. Policy and Values

It is important to put the evaluation into a cultural context to be able to understand prevailing policy dynamics. The traditional lack of trust, in Latin societies, including Honduras, is both a cause and effect of continually changing "rules of the game" which exacerbate policy, economic and administrative inefficiencies. The absence of a strong sense of community and cooperation impedes the kind of social trust characteristic of more developed nations. Hence exaggerated legalistic mechanisms are formulated in an attempt to compensate for this lack of trust. Personal relationships are more binding than institutional ones. Organizations are governed by individuals rather than rules. It is not surprising that the privatization law and regulations are so detailed and prescriptive. They simply account for cultural reality.

### B. Policy vs. Project

Several officials in the Honduran private and public sectors characterized the privatization effort as a project and not a policy. They are largely correct in their assessment. The law and regulations codify the statutory authority to develop relevant public policy. But in the case of Decree 161/85, the law is highly restrictive in its intent to provide the legal and operational, rather than necessarily the conceptual and policy base to privatize specific parastatals. Many other state-owned enterprises and parastatals are left out of the legislation, particularly large service organizations such as the National Electrical Energy Company. As a consequence, policy, such as it is, remains inchoate. At the point where the law is amplified to give legal authority for expanded and non-institution specific privatization, then a real policy can be put into place. (Although for political as well as economic reasons, a decision may be made to exempt a state-owned services from privatization.)

C. Privatization and Reprivatization

Put into the context of Honduran politics, this approach has made sense and been effective. Actually the project has been one of reprivatization of former privately owned companies which were foreclosed by CONADI. In addition, these are enterprises which are mostly idle or operating well below capacity. Privatization of their assets and management can only provide value-added, thereby resulting in basically a "win-win" situation for the government and taxpayers, workers and the investors. Hence, the law and "policy" have yet to meet the acid test of privatization. That will occur if and when companies originally established by the state to provide services become the target of privatization. It may be that for political reasons this cannot happen. But if the first phase produces tangible benefits, particularly for labor, the chances for expanded privatization will be enhanced.

The Project Paper lays out a well-conceived strategy: 1) a phased approach; 2) targeting of CONADI assets; 3) demonstration of early success. It also suggests that expansion of privatization efforts to other SOEs may not be as easy. But that should not necessarily serve as a pretext for not pursuing an expanded privatization project in the second phase.

D. Experimental Policy

The entire privatization project is experimental, as is the policy, or legal, framework in which it operates. By targeting CONADI, Honduran lawmakers have probably created the kind of political climate (or have responded to an existing one) in which the project could move forward with little opposition. CONADI has few defenders. While this is admittedly the path of least resistance, it was an incisive decision. As the Project Paper had envisioned, this move has bought time to let the project work and yield measurable benefits to be used, in part, as a justification for expanded privatization. This may help mitigate, though not eliminate, potential opposition as a second and more ambitious phase is put into operation.

E. Policy Efficiencies

The privatization law codifies the general GOH policy commitment to privatization. Current Honduran economic conditions, plus the policies of donor countries and multilateral lending institutions, have all converged to make divestiture of SOEs a viable and accepted strategy for economic growth and development. The fact that CONADI became such an egregious public scandal helped, of course, to move the President and Congress to cooperate in passing Decree 161/85.

The literature is consistent in the conclusion that privatization is first of all political process. That is, the appropriate political conditions have to exist or be created in order to muster the necessary public and interest group support to allow for divestiture of state property. Hence, the evaluation of the Honduran privatization project necessarily addresses both political and economic efficiencies. Put this way, the policy decision to make the divestiture process "transparent" has been politically, if not procedurally, efficient.

F. Policy Coordination

The impact of the privatization policy, such as it is, cannot fully be understood without measuring it in terms of other related economic policies. Thus far privatization efforts have concentrated on the actual transfer of publicly held resources to private enterprise. However, the privatization strategy does take into account, either implicitly or explicitly, countervailing policies which may limit the intended impact of the project (See "Economic Impacts"). Specific extant public policies which can restrict desired project results include: fixed and overvalued exchanged rates which undermine export goals; Central Bank practices making foreign exchange unavailable for profit remittances, discouraging foreign investment for privatization; price controls on some basic products which are produced by SOEs scheduled for privatization.

G. Policy Impact

Final judgment must be reserved with respect to the ultimate impact of the privatization "policy." As already mentioned, a comprehensive policy has yet to be formulated. Nonetheless, even if one were in place it would be still premature to draw final conclusions. The fact that only eight SOEs have been privatized does not provide the kind of evidence needed to assess generalized impact. The progress of the project to date, is demonstrable, and the outlook appears to be positive. But what the eventual policy impact is will have to be left to another analysis after a greater number of SOEs have been finally privatized and in operation for a sustained period.

## VI. Institutional Mechanisms

The privatization project operates in a complex institutional environment, intentionally designed to maintain the integrity of the process. The trade-off between effectiveness and efficiency seems to be working, although there is room for improvement in the institutional implementation of the project.

Critics of the lengthy and Byzantine privatization process frequently cite the law and regulations as being responsible for the inefficiencies, suggesting that the legislation should be changed. As a matter of sound management practice this makes sense. However, politically an attempt to correct the legislation would be folly and perhaps even fatal to the process. By contrast, institutional performance could and should be improved.

### A. CONADI

There is almost universal agreement even on the part of CONADI officials themselves that CONADI is the major bottleneck in the system. Several problems are immediately apparent, and have already been described in the "Task Report #4," prepared by the Center for Privatization. This report is a comprehensive review of CONADI which thoroughly documented the problems of the parastatal as of May 1986. Most of these deficits have not been corrected, and CONADI by its own making continues to be the whipping boy of the privatization process.

Before reviewing the principal problems of CONADI, two caveats need to be stated. First, it was generally difficult to obtain the required data to conduct the institutional and economic impact sections of the evaluation from CONADI. It was not until the on-site visit was two-thirds completed, for example, that the budget and operating plan were acquired, and even then only by the intervention of one cooperative member of the senior staff bypassing another. Economic data were even more difficult to come by, and were incomplete. This was felt by the evaluators to be representative in some measure of the poor management of the parastatal.

Second, the principal objective of the evaluation is to assess the macroeconomic and policy impact of the privatization project. In so doing, it was necessary to examine the affect of the several institutions involved in the privatization process on the economic and policy results, not necessarily the institutions themselves. Put in research terminology, CONADI and the other institutions are independent variables; the economic and policy results constitute a dependent variable.

1. <u>Management</u>

The problems with CONADI management cited in May 1986 ("Task Force Report #4") have changed little. There is still a high turnover among Executive Presidents and an absence of firm direction from senior management and the Board of Directors. This may be attributed in large part to the plans to divest the institution of its SOEs and shut down operations. There is little incentive for the Executive President to make decisions which could be perceived as inimical to post-CONADI interests, or to become energetically involved in streamlining an organization which is destined for demise. Management commitment is also susceptible to political vicissitudes. Presidential elections will be held in November, 1989, only eight months hence. Both major candidates have publicly endorsed privatization as an integral component of their economic platforms, holding out little chance for CONADI to survive in its present form.

2. <u>Staff</u>

It is no surprise to find staff dispirited. Casual observation and conversation, along with formal interviews, confirm the obvious. Once again, this kind of situation diverts energies from improving institutional performance. Staff understandably are concerned about their future. Their paranoia is increased by the fact that no reduction in force (RIF) plan exists to give them the kind of support to make a the transition to another job.

3. <u>Legal Services</u>

Some positive changes have taken place in staff assignments. In 1986, for example, there were only 2 full-time and 3 contract professionals in the Legal Department. The present total professional legal staff has grown to eight. While this reflects in part growth in the need to conduct more <u>saneamientos legales</u>, the perception outside CONADI is that the staff are still inadequate both in numbers and competence. There is some evidence to support that conclusion. First, the legal cleaning up process has been lengthy. Second, the TWG has had to hire its own lawyers in order to compensate for the lack of competent work on the part of the CONADI legal staff. Third, the number of legal cases lost as a percentage of total cases litigated is to date 47.0 percent (see Annex B), not a very encouraging figure.

In the face of these criticisms and problems, it is interesting to note that a senior CONADI manager stated that the legal clean-up process was neither complicated nor excessively long. He said it reflected <u>un proceso permanente latino</u> and the ways things are done in Honduras. He indicated that one cause of delays in the clean up was the red tape involved in acquiring technical assistance funds from USAID/H to pay for valuation and other experts. Written communication between USAID/H and CONADI, to the contrary, shows that the latter, by failing to comply with explicit AID requirements, has itself caused the delays.

### 4. Planning

CONADI produces an annual plan. A review of the 1988 Operating Plan shows a set of precisely defined goals and priorities. It also contains a budget for allocating staff and financial resources. However, while the goals are necessarily broad, they are not followed by narrower and quantifiable objectives. It is assumed, instead, that the priorities constitute the objectives as well. These, on the other hand, are too ambitious, particularly in view of CONADI's poor performance. Part of the problem may be due to an absence of more participatory planning. In addition, not all key senior staff participate in the planning process.

The detailed annual program budget (which has remained the same since 1987, due to passage of continuing resolutions instead of new budget laws), contains specific objectives and corresponding budget amounts. However, many objectives are not expressed in quantifiable terms. By contrast, other objectives are highly, but often unrealistically, detailed, and have to be changed. For example, for 1987, one objective was to reduce through recovery of avales CONADI contingent liabilities by Lps. 14,131.4. This was subsequently pencilled out and substituted with a figure in the amount of Lps.3,131.4 (Presupuesto: 20). Other amounts in the same order of magnitude were similarly changed. This indicates a high degree of inaccuracy in planning.

The budget also includes items for which there has been no visible activity. For example, one objective is to improve the productivity of selected SOEs still in operation (Presupuesto 9). The President admitted that nothing has been done to implement the task.

Finally, there is nothing in any plan which indicates when and how CONADI is to be shut down. To be sure, various options have been discussed in and outside of CONADI. But even in light of the fact that CONADI management itself has stated one of its two principal goals is liquidation of assets, no visible strategy has been formulated.

### 5. Board of Directors

The CONADI Board of Directors reflects the diversity of interests and institutional actors involved in the privatization process. It is instructive to note that for the past three months the private sector representatives have declined to take part in Board meetings. According to a key representative of the private sector, the reason is that there is "no need" as the project is achieving its goals, and that the private sector is pleased with the divestiture plans. If there are other reasons, which seem likely, they could not be found.

On the one hand, the Board appears to have worked well in protecting the integrity of the privatization process, as evidenced, inter alia, by its decisions to refuse to sell CONTESSA for bonds and ratify the memorandum of understanding (Instrumento 3) with its former partner in MALI. On the other, criticisms have been made that the Board is too indecisive and slow. While few may deny this, it must be kept in mind that the Board is comprised of diverse and not necessarily compatible interests. This is part of the checks and balance system designed by Congress. Another factor is that under the law the individual members of the Board are personally responsible for losses incurred in the divestiture of assets if the prescribed steps have not been followed precisely (GOH, "Decreto 197/85"). This is an effective way of insuring strict compliance with the letter if not the spirit of the law and regulations.

As its major assets are privatized, CONADI will become increasingly irrelevant to the process. At that point, options for the final disposal of CONADI should be considered. The overhead required to maintain the remaining SOEs would not be cost-effective, and there would be little justification for CONADI to continue in operation. Moreover, shutting down CONADI operations could have positive symbolic effect. The GOH could point tangibly to a major milestone in its efforts (policy) to privatize state operated enterprises, and its determination to do away with a national embarrassment.

## B. COHDEFOR

While CONADI is clearly the largest and has been the most controversial of the four parastatals specified in Decree 161/85, COHDEFOR also has relatively significant assets scheduled for divestiture. COHDEFOR was founded in 1974, the same year as CONADI. However, it was established as not only a public entity charged with forest management, but as a parastatal to develop forest business. This was done through the establishment of SOEs in which COHDEFOR became the largest investor. During its first few years of operation, COHDEFOR and its SOEs were able to turn a profit, which was transferred to the GOH. Eventually, the enterprises began to lose money and COHDEFOR was obligated to sustain them out of its budget. According to the Manager of COHDEFOR, the companies were set up with little experience and few adequately trained managers and staff.

As early as 1982, the Board of Directors passed a resolution calling for privatization of its enterprises. Four years later, shortly after passage of Decree 161/85, COHDEFOR consummated the first privatization in the country - FIAFSA. As already described, this divestiture turned out to be a failure because the statutory process was ignored, invalidating the sales contract.

COHDEFOR has yet to focus clearly on privatization of its assets, and does not have an implementation plan in place.

Other major COHDEFOR SOEs include CACISA and CORFINO. FIAFSA has been discussed in detail. CACISA is presently scheduled to have its assets but not the actual company itself privatized. CORFINO, which is one of the largest lumber mills in the Hemisphere, continues to be a drain on the COHDEFOR budget. However, there is reluctance to divest the asset, although that would be contrary to perceived GOH policy. Complicating the matter is the fact that the Inter-American Development Bank is the major shareholder. According to a senior COHDEFOR official, a study is currently being conducted to develop alternative strategies with respect to how to deal with CORFINO.

Privatization of COHDEFOR companies has moved slowly due principally to the failure of the General Manager to assign a high priority to divestiture and to resolve outstanding issues delaying sale of CASISA, LOCOMAPA, SEMSA and, particularly, FIAFSA. COHDEFOR SOEs are distinct from those of CONADI in that the latter were originally private firms acquired by the parastatal through foreclosure. They were never national patrimony. Partly due to that fact, but probably more because CONADI had gained such universal derision, public sentiment to privatize CONADI holdings has been supportive. Similarly, no visible opposition characterized the divestiture of FIAFSA. CORFINO may present a different situation, although that is speculation at the moment. However, a serious attempt to privatize the lumber mill would be a step forward in developing a comprehensive GOH privatization policy.

### C. Valuation Commission

The Valuation Commission does not actually conduct valuations but reviews those submitted by CONADI, which have been prepared originally by the TWG. According to the working members of the Commission, they first review the documents for statutory and regulatory sufficiency, and then proceed to "verify" valuation results. This is done through sampling and on-site visits. The Commission then issues an opinion in which it establishes a value, frequently greater than that of CONADI. In those cases where the Commission's valuation differs from that of CONADI and the TWG, the dispute is resolved by the CONADI Board of Directors.

According to the Commissioners, fifteen enterprises have been valued. They believe the process is now functioning relatively efficiently, and admit that there was a learning process through which they had to pass - along with the TWG and CONADI. Indeed, interviews indicated no dissatisfaction with the valuation process, in contradistinction to wide spread criticism of the legal clean up.

While the valuation process as such has been comparatively efficient and free from serious problems, some respondents have observed that valuations are made by less than qualified valuators. That is, valuators tend to be generalists, unable to establish precisely the real value of a range of different types of assets. However, no specific examples were offered.

The Commission consists of a representative bureaucratic cross-section including the Administrative Propriety Agency, Ministry of Finance and Public Credit, Central Bank, and Comptroller General. In addition, a representative from COHEP is an active member of the Commission unlike the private sector members of the CONADI Board. The representativeness of the Valuation Commission is yet another of the checks and balances built into the privatization system to insure procedural integrity and credibility. However, in comparison to the legal clean up, the valuation process is perceived to be more efficient and less open to irregularities.

### D. Negotiation Commission

The Negotiation Commission is an ad hoc body which meets only when it becomes necessary to negotiate the sale of an asset. Its membership is not fixed, except for a representative from the appropriate parastatal legal department, but appointed by unanimous consent the Board of Directors of the cognizant parastatal (another check and balance). Given the fact that the companies sold to date have gotten premium prices (as established by the official valuation figure), the Negotiation Commission(s) can be said to have been successful.

The one weakness in the negotiation process is that prospective buyers are not required statutorily to submit a production, business or other plan to show how the asset will be used to the benefit of the national economy. After all, the project, if not explicitly then implicitly, promotes privatization as a means and not an end. Privatization is used as one of several strategies or models to create economic growth and development. Thus it is important for the GOH to know how investors intend to use newly acquired SOEs to contribute toward the overall goal of economic growth. This need not be a detailed plan, but the fact that nothing now exists to indicate with some degree of certainty the intended use of the asset needs to be corrected.

The privatization legislation provides for the sale of an SOE either through auction or direct negotiation. In practice, each mode is partly auction and direct negotiation. In the case of the official auction, offerors are competing for the right to negotiate a sales contract. In the case of official direct negotiation, several offers may be received and one is then selected for negotiation. The major difference is that a minimum price is made public in the official auction.

E. Privatization Commission

The Privatization Commission functions only marginally, rarely meeting in plenary session. Its decisions, in any event, are not even binding on the parastatals. The Chairman appears to make whatever decisions are required either by himself or in telephone consultations with selected members. Yet despite this, a meeting with the Chairman showed him to be knowledgeable about the project, supportive of its goals, and positive about the role the Commission has been carrying out, although acknowledging that it has been peripheral.

Part of the weakness of the Commission derives from the Chairman's lack of poder convocatorio, making it difficult for him to coordinate the various interests comprising the group. Second, as an advisor, the Chairman lacks the line authority to direct the Commission more forcefully. Third, his workload is so great that it is difficult for him to give the Commission greater attention.

The theory behind the Commission is sound. It provides a visible and high level focal point to achieve intersectoral support of privatization. It is reasonable to suggest a more active and directive Commission could have promoted greater project efficiencies and more positive results in the privatization process. While the Commission has done nothing to impede project progress, it has not provided the kind of leadership needed. However, to disband it would achieve no useful purpose. On the contrary, it might cause unnecessary resentment. For the future, it may be useful to consider formation of an executive secretariat to support the Chairman and permit the Commission to function as originally envisioned.

F. Technical Working Group

In terms of goal attainment, the TWG has produced results. Depending on competing definitions, a total of eight SOEs has been privatized, and at least nine are in the pipeline (see Chart 2). More important, these eight companies represent an economic impact which has shown positive results according to several indicators (see "Economic Impact") and represent more meaningful measures of success than the number of enterprises privatized. In addition, the conscious decision to follow the strategy set forth in the Project Paper to begin slowly and seek to divest those enterprises which are "easy" targets has paid off. By concentrating on the larger and more "privatizable" companies, the project has been able to achieve successes that otherwise might have been elusive. By the same token, in assigning low priority to small companies which perhaps can not even be sold, the project management has been able to focus its energies in a much more productive manner.

1. Executive Management

CHART 2

STATUS OF SOEs IN PRIVATIZATION PROCESS

January 19, 1989

| 1 | 2 | 3 Valuation Approvals | | 4 | 5 |
|---|---|---|---|---|---|
| Legal & Financial "Clean-Up" | Valuation in Process (TWG) | By CONADI/ COHDEFOR BANADESA | By Valuation Commission | Public Auction or Direct Negotiation | Privatizations Approved by Board of Directors |
| Aceros Industriales | Aceros Industriales | Mejores Alimentos/ AgrÀcola | Locomapa | Inacero | Metalsa |
| Proinco | Aceros Industriales | | Hotel Lincoln Plaza | Casisa | Inhosa |
| | | L cteos Sula | | | |
| QuÀmicas Conrad | Proinco | | | Hotel Brisas | |
| Azucarera Central | Hotelera Copan | Fincas Sta. Rosa y Palo Seco (ACENSA) | | | Azucarera Yojoa |

| | | | |
|---|---|---|---|
| Incehsa (acciones) | Servteny (Conrad) | Hotel Villas Telamar (55%) | Pacarsa |
| Cementos de Honduras | Azucarera Central | | S.I.C. |
| Químicas Dinant | Tan (40%) | | Fucensa |
| Tan (acciones) | | Contessa | |
| Hondutur | | Casisa (Parcial) | |
| Acansa | | | |

In terms of the efficiency of its management, the picture is mixed. The impression is that senior management is detached, at least stylistically, but able to provide sufficient direction to permit the project to function. At the same time, there are some built-in obstacles to more effective project management. First, the Director has to respond to the competing pressures of a set of different clients, constituents and interested parties, each with separate objectives: USAID/H which wants to produce relatively quick and impressive project results; CONADI which resists technical assistance because of the uncertainty of its institutional future and desire to prolong its inevitable demise; the Center for Privatization which acts at times more like a consumer than provider of support and assistance; private investors who are seeking to get a business advantage; the multiple institutional actors involved in the privatization process.

The Director is caught in the middle, although that is his job. On the one hand, he is expected to maintain a low profile so that the project is increasingly perceived as an Honduran and not USAID effort, and he has succeeded in this. On the other hand, he is expected to exercise strong managerial leadership, and he has been less successful at that. It probably would take a more schizophrenic person to be able to accomplish both objectives.

Although no job description was available for the Director, the resume of the incumbent indicates he was selected on the basis of substantial private sector management experience. After reviewing the project, it has become apparent that a more appropriate set of qualifications would be, along with some private sector background, substantial experience in the public sector, including working knowledge of the policy processes, an ability to function effectively in a highly charged political environment, and the academic and/or experiential stature to interact forcefully and effectively with diverse client and constituent groups. Privatization is first a political process. A Director with the ability to operate effectively in the public and political domain can complement his skills with staff able to manage the technical and economic aspects of privatization. On balance, however, the Director has exhibited the patience required to manage all the competing interests.

Finally, member of the TWG senior staff and Center for Privatization felt that USAID/H has been inconsistent, at times, in its guidance of the project. In particular, they cite mixed signal received from USAID/H with respect to the need for the TWG to maintain a low profile.

Several officials in the public and private sectors commented that there exists an important need to promote more aggressively greater awareness (<u>concientización</u>) of the benefits of privatization.

According to the Director of Marketing, only twelve "conferences" have been held with various economic sector representatives. Fewer than that have been with labor. This is a critical deficit which needs to be corrected immediately, as the unions will form the vanguard of oppositions to future privatization activities. The following chart indicates the number of awareness interventions, by type, which have been supported by the TWG. There is still a need to generate even more awareness, concentrating not only on the benefits of privatization to the country and different socioeconomic sectors, but also focusing on the definition of privatization. This is especially critical with respect to organized labor, which has a tendency to interpret privatization to mean the simple transfer of state patrimony to private ownership. Privatization, of course, is infinitely more complex than that. But unless the labor sector is shown the various mutations of privatization[7] and how workers can benefit from SOE divestitures, and be made to see that labor has a vested interest in privatization, a critical opportunity to defuse potential opposition may be lost.

Another area in which marketing can be more effective is in providing assistance to CONADI - and other parastatals - in developing promotional packages. No brochures on the companies for sale, slick or otherwise, were found to exist. At CONADI, the materials reviewed did not even have photographs of the physical assets. While substantial newspaper publications on auctions and sales exist, more needs to be done by way of increasing the volume and types of public relations and marketing interventions. By contrast, substantial efforts have been made to recruit and assist potential investors in acquiring SOEs.

The Director of Marketing has developed an operating plan, based in part on a commissioned report in 1987 entitled "Algunas Consideraciones de la Formulación de una Estrategia de Comunicación para el Programa de Privatización de las Empresas del Estado". However, the plan itself is more of a GANTT or activities chart than a real plan. That is, it lists no goals, objectives or priorities, nor does it have any explanatory narrative. The TWG Director needs to work more closely with the Marketing Director to strengthen this area.

3. General Administration:

Once again, it is important to note that the purpose of the evaluation is not to conduct an exhaustive assessment of the TWG, but rather to treat it as one of a series

---

[7]The Director of Marketing was the intellectual author of the GOH debt-equity strategy in divesting several CONADI SOEs. Ironically, the benefits strategy has never been widely publicized.

of independent variables to measure the policy and macroeconomic impacts of the privatization project.

As mentioned earlier, the overall management of the TWG is not as efficient as it could or should be. Records are poorly organized and incomplete. For example, after three requests for position descriptions of TWG staff, the evaluators were given one PD which had been just printed. Similarly, statistics on routine project matters were not organized but had to be compiled. Personnel and office procedures are not codified in a manual. Instead they are constituted by a series of memoranda sporadically issued by the Director and Administrative Manager, mostly in response to problems having already occurred. Monthly reports are submitted, but they consist of project expenditures with no narrative explaining project progress to date, problems encountered or planned activities.

Data on actual privatizations and for other indicators have not been routinely assembled and archived. As this is an experimental project, it is surprising that no systematized data bank was ever created. (This should have been part of the project design, and its absence constitutes an important deficiency. Data for many of the questions now being asked in the evaluation should have been collected all along, and period aggregations and analyses made.) There is not even a central unit for archiving data. For example, both the Deputy Director and Marketing Director have project data, many of which are inconsistent with each other.

By contrast, some staff showed a detailed and knowledgeable grasp of the project and its subtleties. The Deputy Director, in particular, provided the evaluators with a great deal of insight into the complexities of the project, had data readily available and was intimately familiar with the details of the various divestiture transactions.

G. Center for Privatization:

Technical assistance to the privatization project, as provided through the TWG, is arranged through a contract between the Center for Privatization and USAID/H. The working relationships between the Center and the TWG have been uneven at best. TWG professional staff indicated dissatisfaction with CFP project management, citing several instances of what they believe to be less than sufficient support.

- Oversight and support have been incomplete. For example, the CFP project manager has visited Honduras only four times during his eighteen month tenure, each time for not more than one week. TWG staff believes he is not sufficiently knowledgeable about project and therefore unable to provide more effective support.

- Staff expressed the belief that they were furnishing more support, by way of reports and project related material to the CFP, than they were getting in return. The specific characterization was that the Center is only "50 percent efficient."

- Staff are of the opinion that the Center has not provided enough research oversight, pointing out that the project is an R&D initiative. (However, no evidence could be found to indicate the TWG itself had taken the initiative to correct this situation.)

- The major factor in the deterioration of Center-TWG relationships came when the CFP project manager traveled to Tegucigalpa to dismiss the TWG director. This was managed poorly by the Center, causing morale problems within the Group, and exacerbating relationships with the GOH.

Staff at the Center, by contrast, characterized their relationships with the TWG as "very good," reflecting a significant disparity in perception with the Group. The project manager sees his role as one of providing logistical, program, policy and intellectual support. However, he indicated that he has only been able to provide twenty-five percent or less of his time to the project because of "the project crisis in Bolivia." He stated he would return to Honduras if asked by the TWG, but did not indicate he would take the initiative to make another trip.

The project manager complained that he had difficulties in obtaining sufficiently detailed reports from the TWG on individual privatizations, and he found the TWG group to be less than adequately responsive. Although he ostensibly has authority to make personnel changes in the Group, he described the TWG as a "three-headed monster" that needs to but cannot be changed, an apparent reference to the three senior staff members.

Relationships between the TWG and Center need to be improved, and the project manager should be more active in the project, taking initiation to solve problems he himself has identified. Communications should be more orderly and responsive. Roles and responsibilities of both the Center and TWG to each other should be clarified. The Center needs to be much more conscientious in managing the project.

## VII. Economic Impacts

### A. Economic Performance

In recent years the Honduran economy has suffered from many of the same factors which have plagued other Latin American countries: stagnation, rising unemployment, bankruptcies in the industrial sector, large budget deficits, a burdensome external debt service and foreign exchange shortages.[8]

- o Honduran external debt has doubled since the start of the debt crisis in 1982. It now stands at $3.5 billion, including interest in arrears. This debt is equal to 80% of the Gross Domestic Product (GDP) calculated at the official rate of exchange (130% at the unofficial rate of 3.30 L/$) (Table I).

- o A government policy of maintaining a fixed and overvalued official exchange rate has discouraged export diversification. In fact, the real value of exports of processed and manufactured products to-day is well below its level of 1979.

- o Default on interest payments on the external debt has resulted from lack of foreign exchange due to failure to generate trade surpluses. Interest payments of ($250 million per year) are made only to the extent they are offset in the balance of payments by U.S. government loans (about $165 million per year) and grants ($135 million).

- o Unemployment has been increasing. In fact, employment in industry is about 10% below the level of 1980, and real wages in all economic activities are still below their level in 1974.

- o Investment has fallen from 22% of GDP prior to the debt crisis to 13% of GDP currently, barely above what is needed to offset capital depreciation in the economy. The steep drop in investment is the result of several factors, among them lack of confidence by the private sector, budgetary constraints on the public sector, and virtually no new private foreign capital inflows.

- o Public sector budget deficits have generally fluctuated between 10% and 20% of GDP and sometimes reached the equivalent of 50% of total revenues. State company spending

---

[8]All statistics for this section, including those in the tables, have been calculated from data provided by CONADI, the Central Bank, Ministry of Economy and Finance, and the TWG. It is important to emphasize the fact that the data are not reliable and in some cases incomplete. In that sense, they reflect basically estimates rather than verifiable statistics.

has more than doubled since 1980 in part due to the acquisition of bankrupt private firms. State company deficits account for 55% of the total public sector deficit.

TABLE I

HONDURAS CURRENT ECONOMIC INDICATORS

($ Millions)

| | |
|---|---|
| Total External Debt<br>equiv. 80% of GDP | 3,500 |
| Trade Deficit | 30 |
| Net Services (mostly interest) | 300 |
| Current Account Deficit<br>Financed by: | 330 |
| Loans (mostly U.S.) | 175 |
| Grants and other transfers | 145 |
| Investment as % of GDP | 13.0 |
| Public Sector Deficits as % of GDP | 10.0-13.0 |
| % Share of state company deficits | 55.0 |
| U.S. aid as % of GDP | 7.0 |
| Average Annual GDP growth since 1980 | almost 0.0 |

The result of these negative developments has been virtual stagnation of the economy during the 1980's, despite inflows of U.S. aid in the order of $300 million per year--a contribution of about 7% to the GDP. While U.S. assistance has helped prevent an absolute decline of the Honduran economy, it has not been able to spark a reactivation.

To reactivate, it is necessary to stimulate private investment, attract foreign capital, diversify and expand exports, lighten the external debt burden, increase employment, elevate the level of productivity, raise government revenue, and reduce state ownership and control over the economy. Privatization, if successful, can achieve progress in all of these areas and serve as catalyst for a recovery and sustainable growth of the economy. Privatization can achieve lasting success only, however, if it is accompanied by reforms in a wide range of economic policies and in public sector administration. In the course of this evaluation, it became evident that selected policies and practices need to be changed in order to restore private local and foreign investor confidence.

The overvalued, fixed exchange rate is an obstacle to export diversification and expansion and has been a major factor in the sustained decline of exports of processed and manufactured products. The current exchange rate encourages capital flight (registered at $50 million per year in the balance of payments), and over and under invoicing in foreign trade. Repatriation of exports through the unofficial exchange market deprives the Central Bank and the country of foreign exchange earnings for legal transactions. Currently, the Central Bank authorizes profit remittances for foreign companies operating in Honduras but does not provide the corresponding foreign exchange. Therefore, foreign companies can only effect profit remittances through the unofficial foreign exchange market. This practice discourages foreign investment. Continuing default on interest payments of the external debt prevents the government and the private sector from obtaining new bank financing. Price controls discourage investments in some areas and uncertainty about the future cost of basic inputs in other activities. Failure to remove the causes for the lack of private sector confidence could:

- slow down or even stop the process of reprivatization;
- discourage additional investments to convert re-privatized firms into efficient, export-oriented, growing businesses; and
- cause re-privatized firms eventually to fail a second time and be closed down.

In the following analysis, it was assumed that these negative developments will not occur, but that the re- privatization program will achieve its goals. This assumption forms the basis for the calculations of the net impact of the on-going privatization program on the Honduran economy.

The impact of privatization was measured in terms of:

- o External debt reduction
- o Foreign capital inflow
- o External trade improvement
- o Total net foreign exchange gain
- o Increased investment production
- o Employment generation
- o Greater productivity
- o Public sector budget deficit reduction
- o Higher GDP growth

B. External Debt Reduction

The Honduran government has decided to employ external debt-for-assets swaps as an incentive for privatization of state-owned companies. While implementation regulations of the debt-for-equity legislation have not yet been approved, some swaps can be approved by executive decree. This is the case for debt- for-assets swaps in the privatization process, particularly as these types of swaps are not inflationary because they do not involve local currency issues by the Central Bank.

Local national investors can also avail themselves of debt-for-assets swaps as a means for purchasing state company assets. Local investors obtain the necessary foreign exchange by (a) repatriating flight capital or (b) purchasing dollars in the unofficial exchange market or (c) using export proceeds.

On investments made through debt-for-assets swaps, remittance of profits and repatriation of capital are permitted without delays or other restrictions. The Central Bank currently, however, does not make available any foreign exchange at the official rate for these types of remittances by foreign investors. They have to resort to the unofficial market at around 3.30 L/$ (instead of 2.00 L/$) to make financial remittances.

To effect the purchase of state company assets, foreign and local investors can purchase Honduran external debt from foreign creditor banks at a 75% discount off the face value of the debt obligation. This is the discount rate prevailing in the secondary market. Associated interest in arrears is generally written off by the creditor bank. However, the government requires that some additional foreign debt obligations be purchased and liquidated in order to capture a part of the additional windfall gain the investor makes from the debt-for-assets swap. A sliding scale has been developed for this purpose, depending on the size of the discount from the face value of the debt prevailing in the secondary market. The size of the one- time gain from debt-for-assets swaps for the foreign investor will also depend on the spread between the unofficial and official exchange rates.

In estimating the amount of the external debt and interest in arrears could be be eliminated by privatization, two groups of state companies were considered (Table II):

Group A: Companies with privatization concluded or with an agreed debt face value already determined.

Group B: Companies in the process of privatization to be concluded in 1989 or 1990 where the debt face value still has to be estimated on the basis of official valuation or investor bids received.

Two additional assumptions underlie the calculation:

1. Foreign creditor banks are assumed to be willing to sell the Honduran debt obligations they hold at a discount of around 75% (prevailing in the secondary market). Many private foreign banks still prefer to continue holding Latin American debt obli ations rather than taking substantial write-offs, partly to avoid the threat of negative asset revaluation in the United States. There is an incentive to sell Honduran debt, however, because of the continuing substantial default on interest payments.
2 All state companies for sale are assumed to be sold within the next 12 months. This goal may not be attainable for a number of reasons, including the lengthy privatization process outlined elsewhere in the report, the failure to introduce economic reforms to encourage privatization, and the poor condition of the assets of some state companies that have remained closed or in a state of near bankruptcy for some time.

Assuming the goals are achieved, re-privatization of the assets of these companies would reduce the total Honduran external debt, including interest in arrears, by about $102 million within the next 12 months.

CONADI's total external debt of $178 million accounts for 38% of Honduran debt owed to foreign banks.

Privatization through debt-for-assets swaps would reduce CONADI's external debt by 57%, and total Honduran debt owed to an annual interest saving of $12 million and a potential annual reduction in the public sector deficit by $22 million or 5% (assuming amortization remains a payable obligation in the future).

C. <u>Foreign Capital Inflows</u>

Although foreign creditor banks receive dollars from swap transactions liquidating Honduran debt obligations, the investors acquire the assets of state companies in Honduras. Therefore, the dollars they spend in these transactions constitute foreign investment made in the process of privatization.

TABLE II

EXTERNAL DEBT REDUCTION
($ MILLIONS)

| State-owned Companies | Principal | Interest in Arrears | Total |
|---|---|---|---|
| PACARSA | 4.0 | 1.2 | 5.2 |
| PROHCOSA | 1.2 | 0.4 | 1.6 |
| INGRASA | 0.8 | 0.3 | 1.2 |
| SIC | 0.3 | 0.1 | 0.4 |
| FUCENSA | 2.0 | 0.8 | 2.8 |
| TOTAL GROUP A | 8.4 | 2.8 | 11.2 |
| CONTESSA | 6.0 | 2.1 | 8.1 |
| MALI/AGRICOLA | 21.1 | 7.4 | 28.5 |
| LACTEOS SULA | 9.2 | 3.2 | 12.4 |
| HOTEL PLAZA | 3.9 | 1.4 | 5.2 |
| DESATUR | 4.9 | 1.7 | 6.7 |
| INACERO | 10.0 | 3.5 | 13.5 |
| AISA | 6.3 | 2.2 | 8.5 |
| AZUCARERA CENTRAL | 3.1 | 1.1 | 4.1 |
| BRISAS DEL LAGO | 2.8 | 1.0 | 3.8 |
| TOTAL GROUP B | 67.3 | 23.6 | 90.8 |
| GRAND TOTAL | 75.7 | 26.4 | 102.0 |

ASSUMPTIONS

1. Debt will generally be purchased at 25% of face value.
2. Interest in arrears is 35% of face value of debt (average for swaps already achieved).

TABLE III

EXTERNAL DEBT REDUCTION

($ Millions)

| | |
|---|---|
| Debt to Foreign Banks | 464 |
| External Debt of CONADI and Companies | 178 |
| External debt Eliminated by Privatization in 1988 | 11 |
| estimated in 1989-90 | 91 |
| Total | 102 |
| % of CONADI Debt | 57.0 |
| % of Honduran Debt to Foreign Banks | 22.0 |
| Annual Interest Savings | 12 |
| Potential Public Sector Deficit Reduction | 5.0 |

The large discount for Honduran debt obligations provides an incentive for national companies also to use debt-for-asset swaps in purchasing assets of state companies. Thus, national companies invest dollars as well. It is impossible to determine how much of their investment would be derived from export proceeds, flight capital repatriation, or resort to the unofficial exchange market.

Companies will likely spend altogether an estimated $20 million dollars in 1988-90 on the purchase of Honduran debt obligations for the acquisition of state companies (Table IV). Additional foreign capital will enter in the form of imports of machinery and equipment and other expenditures for modernization and capacity expansion and foreign exchange to cover working capital requirements. This has been estimated conservatively at $10 million, but may well exceed this amount. Also, additional inflows will occur in subsequent years.

For the next two years, total foreign investment due to privatization has been estimated at $30 million.

This compares with a total average net foreign capital inflow of $39 million during the past three years in all economic activities. Thus the foreign investment inflow could nearly double in the near term as a result of successful privatization.

D. External Trade

Total Honduran exports have remained essentially stagnant in recent years, at a level below $900 million. Exports of processed and manufactured products in real terms have declined substantially due to the overvalued, fixed exchange rate and virtual collapse of the Central American Common Market. Privatization could start reversing this negative trend, particularly if the government adopted a foreign exchange rate policy geared to promote export diversification.

Investors interested in acquiring state companies for sale have indicated plans to develop exports of about $34 million per year, which would elevate Honduran exports of manufactured and processed products by about 25% (Table V).

Aside from an initial period of sizable imports of machinery and equipment, privatization may result in estimated annual additional imports of about $10 million to meet increased production requirements. Planned privatization may this produce a net improvement in the trade balance sufficient to wipe out the current level of the overall trade deficit.

TABLE IV

FOREIGN CAPITAL INFLOWS

($ Millions)

| | |
|---|---|
| Cost of Debts Purchased: | |
| Company Group A | 3.7 |
| Group B | 16.3 |
| Total | 20.0 |
| Estimated Foreign Investment in Modernization, Expansion, Working Capital | 10.0 |
| Total Foreign Capital Inflow with Privatization | 30.0 |

TABLE V

EXTERNAL TRADE

($ Millions)

| | |
|---|---|
| Total Honduran Exports (1988) | 873 |
| Total Honduran Imports (1988) | 917 |
| Trade Deficit | 24 |
| Due to Privatization: | |
| Additional Exports | 34 |
| Additional Imports | 10 |
| Net Improvement in Trade Balance | 24 |

E. Balance of Payments and Reserves

Summarizing the gains in the individual categories in the balance of payments due to privatization, there would be an estimated overall net foreign exchange gain of roughly $41 million per year (Table VI). This is composed of a:

- $24 million annual net improvement in the trade balance
- $22 million annual savings in interest and amortization payments (assuming that these obligations would have to be resumed in a timely manner in the future)
- $5 million annual capital inflows for plant modernization and capacity expansion (or re-investment of dividends),
- less: $10 million estimated annual dividend emittances.

A net $41 million annual foreign exchange gain would be available to expand total imports by 4% or decrease the bank debt by 9% or raise the level of foreign exchange reserves.

F. Investment and Production

Total investment in the Honduran economy--private, public, foreign, national, industrial and agricultural--amounted to $578 million in 1988. This represents a steady decline of 14% during the last four years alone. Total investment decreased from about 22%, of GDP prior to the debt crisis, to 13% currently, only slightly above replacement of depreciation in the economy.

Public sector investment fell by 33% during the past four years. The closure of state companies, now up for re- privatization, represents part of this steep decline. The private sector, however, has not displayed sufficient confidence to offset most of the reduction in public sector investment.

In the process of privatization, private local and foreign investors would spend an estimated $20 million to purchase the assets of the state companies via debt-for- assets swaps (Table VII). Most of these state companies have been closed or are operating at greatly reduced capacity and near bankruptcy. Therefore, the investment by the private sector would revive these plants, production, exports, and employment.

An estimated additional $20 million would be invested in modernizing plant and equipment, in capacity expansion and to meet working capital requirements. Thus, during the next three years privatization is likely to produce an estimated $40 million in private investment in industry. This investment would bring about an increase in annual production of about $50 million, which represents about 1.3% of total annual GDP.

TABLE VI

BALANCE OF PAYMENTS AND RESERVES

($ Millions)

| | |
|---|---|
| Net Improvement in the Trade Balance | 24 |
| Savings in Annual Interest/Amortization | 22 |
| Additional Foreign Capital Inflow | 5 |
| Total | 51 |
| Estimated Dividend Remittances | 10 |
| Net Foreign Exchange Gain | 41 |
| Available for: | |
| 4% Increase in Imports or | |
| 9% Decrease of External Bank Debt or Expansion of Foreign Exchange Reserves | |

TABLE VII

INVESTMENT AND PRODUCTION

($ Millions)

| | |
|---|---|
| Total Investment (1988) | 578 |
| Total Investment in Privatizing Companies | 20 |
| Additional Investment, for Modernization, Capacity Expansion, Working Capital | 17 |
| Total Investment Due to Privatization | 37 |
| Production Increase Due to Investments 1.3% of GDP | 50 |

G. Employment and Productivity

Prior to their reprivatization, the SOEs which have been transferred to private ownership provided employment to 924 workers. This is expected to grow to 1200, despite expected personnel reductions in Lacteos Sula and perhaps other privatized companies--due to efficiency moves on the part of the new management.

There are an estimated 70,000 workers employed in the formal industrial and agrobusiness sectors. Employment in these sectors could expand by about 1.7% as a result of privatization. Additional employment throughout the economy could be generated through the multiplier effects of new investments due to privatization. However, this effect cannot be estimated without considerable additional detailed research.

Total sales per employee were $47,000 per year prior to privatization. They are expected to drop to about $44,000 after privatization. Incremental sales created per incremental employee are estimated at only $41,700 per year. Thus, productivity may not improve in the early period of privatization when employment needs to increase sharply to reactivate the plants and start up the production process and sales effort, but is expected to rise eventually.

H. Public Sector Budget Improvement

Re-privatization of all state companies currently offered for sale could produce an estimated budgetary gain of $33 million per year (Table IX). Assuming the government resumes full external debt service, savings in interest and amortization due to debt reduction as a result of privatization could amount of $22 million per year. Not included in this calculation is the interest in arrears of $26 million that would be erased along with the redemption of debt obligations. If only interest payments but not amortization are included in the calculation, the annual saving is reduced by $10 million.

No cash receipts for CONADI from the sale of companies are assumed, because CONADI insists that all divestitures are carried out through debt-for assets swaps in order to lighten the debt burden of CONADI. There would also be a substantial cash outlay saving for the investor due to the large discount from the face value of the debt.

There would be no savings in subsidies and other transfer payments due to privatization, because those applicable to the privatized companies have earlier been abolished. There would be an estimated $0.9 million per year saving in direct and indirect costs of administering and supervising the companies after re-privatization.

## TABLE VIII

## EMPLOYMENT AND PRODUCTIVITY

| | |
|---|---|
| Employees in Companies: prior to privatization | 924 |
| after privatization | 2124 |
| Total net employment generated by privatization | 1200 |
| Total employment in industrial and agrobusiness sector | 70,000 |
| About 1.7% added by privatization | |
| Total sales per employee <u>prior</u> to privatization | $47,000 |
| Estimated total sales per employee <u>after</u> privatization | $44,000 |
| Estimated incremental sales per additional employee after privatization | $41,700 |

TABLE IX

PUBLIC SECTOR BUDGET IMPROVEMENT

($ Millions)

| | |
|---|---|
| Savings in Annual Debt Service (once full obligations resumed) | 22 |
| Savings in subsidies and other transfer payments | 0 |
| Savings in Direct/Indirect Costs of Administration/Supervision | 0.9 |
| Additional Annual Revenue from Corporate Income Tax | 4 |
| Sales Tax | 2.5 |
| Import Duties | 2 |
| Total Budgetary Gain | 31.4 |
| Public Sector Deficit, non-financial | 245 |
| Deficit of State Holding Companies, Including CONADI | 196 |
| Total Public Sector Budget Deficit | 441 |
| Potential 7.1% Reduction due to Privatization | |

Annual revenue of about $8.5 million per year would be gained from additional income taxes, sales taxes, and import duties collected from the increased operations of the re-privatized companies. Theses estimates are based upon:

- additional sales of $50 million per year
- sales tax rate of 5%
- profit margin of 20%
- maximum income tax rate of 40%
- imports of $10 million per year
- average import duties of 20%.

The public sector budget deficit in 1988 was composed of the deficit of state holding companies, including CONADI, of $196 million, and the remaining public sector budget deficit of $245 million. The total budgetary gain estimated at $31.4 million per year could be used potentially to lower the public sector budget deficit, currently at $441 million, by 7.1%. By comparison, the total costs of the three-year process of privatization are estimated at a maximum $15 million, or $5 million per year.

## I. Total Economic Gains

Total gains for the Honduran economy resulting from re-privatization are estimated at about $68 million per year (Table X). This represents an equivalent of 1.8% of annual GDP. Excluded are the substantial one-time economic gains achieved when the state companies are sold.

The permanent annual gains are found in four broad categories:

- budgetary gains
- foreign exchange gains
- new foreign and national investments resulting in more production
- additional payroll generated from new jobs.

As was pointed out at the start of the economic analysis, the size and permanency of the benefits from re- privatization for the Honduran economy will depend on the successful and timely completion of the privatization process and on wide ranging future economic reforms anticipated to be carried out by Honduran governments, which will restore and sustain a essential high level of private investor confidence.

TABLE X

TOTAL ECONOMIC GAINS

($ Millions)

| | |
|---|---|
| Budgetary Gain (excluding Debt-Service) | 9.4 |
| Net Foreign Exchange Gain (excluding Foreign Investment | 36.0 |
| Private Foreign and National Investments | 17.0 |
| Estimated Additional Payroll | 5.9 |
| Total Annual Gains due to Privatization* | 68.3 |
| Equivalent 1.8% of Annual GDP | |

* Excluded are all one-time gains due to the sale of the state companies.

## VIII. Conclusions and Recommendations

The overall conclusion is that the privatization project is achieving measurable progress in meeting its goals. A legal framework has been established to permit divestiture of SOEs with a minimum of irregularity. The economic benefits of the project to date have been positive, and projections indicate even more favorable results as the remaining large SOEs are privatized. Specific conclusions include:

- The political will to put into place and sustain the necessary legal framework for a successful privatization project has been demonstrated. By contrast, political commitment to the project has vacillated on occasion, as competing political pressures periodically displace the priority assigned to privatization.

- A comprehensive policy framework has yet to be established, principally because so much of the statutory and programmatic focus has been on specific institutions, CONADI in particular. Once privatization as a concept is codified, then the appropriate conditions for a comprehensive policy framework will have been met.

- There is a general lack of economic policy coordination, resulting in policy incompatibilities such as fixed exchange rates which undermine export goals - and negatively impact privatization of export-oriented SOEs.

- Opposition to privatization has been minimal, although as efforts to expand the project continue, especially to state-owned services, organized labor will begin to mobilize against divestitures. It is vital to begin work immediately with organized labor to educate the leadership with respect to the various types of privatization and potential benefits. This could begin with meetings with the CTH, whose more pragmatic approach to divestiture provides an opportunity for dialogue and negotiation. Similarly, it is important to consider labor's arguments that state-owned services are operating profitably. If that is the case, a strong economic as well as political argument could be made for exempting them from privatization.

- Decree 161/85 and accompanying regulations have created a detailed and prescriptive privatization process. This was done intentionally in order to preserve the integrity of the process both by keeping it "transparent" and subject to a series of checks and balances. This has resulted in a trade-off between efficiency and effectiveness, which has worked successfully. The law should remain intact until the holdings of the specified parastatals are privatized, or other disposition is made. At that time, steps could be taken to amend existing legislation to permit the formulation and implementation of a comprehensive policy.

- When the legal and "policy" foundations of privatization are modified to focus on concepts rather than specific institutions, a mature policy framework will have been put into place.

- Both the policy and project have been experimental, and the major institutional actors have all undergone a learning process which has yielded positive results - some of which should be considered for replication.

- The greatest inefficiencies in the process are institutional. CONADI in particular has been a major bottleneck.

- As the process moves forward, and more CONADI assets are divested, a decision will have to be made on what to do with the parastatal. CONADI could either be reorganized into a second story bank, have its remaining assets transferred to another agency such as the Central Bank, or be allowed to survive in greatly reduced capacity. The first two alternatives would give the GOH the opportunity to be seen to act decisively against a national embarrassment and remove a persistent source of popular discontent. The second option may have some strategic value, focusing public attention on the need to continue privatization efforts against a universally derided organization, thereby helping to attenuate potential opposition to divestiture of other state-owned assets.

- There exists confusion as to whether privatization is a means or an end. It is important to define privatization as one of several means, or strategies, toward economic growth and development. (The evaluation has measured the project on the basis that privatization is a means. If it were assumed to be a goal, then the progress to date would have been significantly less.)

- Correlatively, there is a need to require prospective investors to submit documentation indicating to what use they intend to put acquired assets.

- There has been a lack of public education efforts aimed at the public at large and at labor in particular. It is imperative to develop strategies to deal with labor in particular.

- TWG management needs to be strengthened, although it is important to note that the Director has been successful in maintaining a low profile in order to maintain a public perception that the project is a GOH and not USAID/H initiative.

- The Center for Privatization needs to improve significantly its relationships with the TWG and increase its support for the group.

- The skills requirements for the TWG director were inappropriate. Given the nature of his tasks, the director should have been an individual with substantial public sector experience, knowledgeable about policy and politics, particularly in the Latin American environment. The ideally qualified candidate would also have some experience in the private sector, but his/her minimal business skills could be complemented by senior staff with expertise in business administration and economics.

- The lack of a sustained research component to the project, which is an R&D effort, has been a critical oversight. It is surprising the Center for Privatization, which has a research unit, did not become more active to collecting and analyzing project data. A full-time professional should be added to the TWG to provide research support. One of the benefits to - and goals of - the project is to acquire knowledge and lessons for application elsewhere.

- Permanent annual economic gains have been generated as a result of project activities. These include: budgetary gains; additional foreign exchange; new jobs; new foreign exchange; new foreign and domestic investment, resulting in greater production. Emphasis on privatization of SOEs <u>which can be operated profitably</u> should be the major goal, as they yield multiple economic and social benefit.

- Among other problems caused by the lack of a research component in the project has been the inability of the team, in post hoc fashion, to determine impacts of privatization on women. It can be reasonably, if not empirically, assumed that the general economic benefits resulting from divestiture will redound to women as part of the general population. However, any more detailed assessment at this point would be speculation.

## IX. Lessons Learned

Most of the lessons learned can be drawn from the conclusions. However, it useful to summarize them separately.

- The indicators of success for privatization should not be the number SOEs divested, but rather the value they represent and their economic impact in terms of jobs generated, debt serviced, foreign exchange produced and contribution to GDP. This lesson will help to inform the design of subsequent projects and the setting of realistic goals and expectations.

- A political environment hospitable to privatization is an essential condition for creating the appropriate legal and policy frameworks for a divestiture project. In a democracy, it is critical for the executive and legislative branches to work together.

- It is equally essential to put into place an effective public education program at the start of a project, targeting potential opposition groups in an effort to co-opt them.

- Not all publicly owned enterprises should be privatized. That is, there may exist parastatals which are operating efficiently (SAS, for example). It should not be assumed that an SOE is *a priori* unprofitable. Strategies need to be discrete and realistic.

- Debt-for-assets swap mechanism represent a creative and effective approach to privatization and should be further encouraged in Honduras--and elsewhere.

- Potential investors need to be required to submit plans indicating intended use of SOEs to be purchased.

- Project directors (Chiefs-of-Party) should possess experience and skills in politics, public administration and policy management, as well as relevant LDC experience. Secondarily, they need to be familiar with the private sector. It is clear that the TWG director has had to be much more knowledgeable about policy and political processes than business administration.

- Technical groups need to maintain a low public profile in order to encourage host governments to assume the leadership in privatization. Privatization is sensitive enough without creating perceptions of USG manipulation into the process.

- The word "privatization" is a red flag and should be dropped from the AID lexicon. The World Bank, for example, now uses the term "rationalization of public resources."

- It is important to generate and maintain accurate data on project efforts, particularly for monitoring progress, recruiting investors and promoting public education.

- Similarly, indicators on privatization impacts on women need to be built-in up-front. While it may be reasonably assumed women have benefitted from divestiture, this cannot be established without reliable data.

- Finally, privatization can be an effective economic growth strategy. However, it should be considered one of several strategies, and not a goal in itself. By putting into this less ideological and more realistic context, the Mission has been able to promote a successful project.

# X. APPENDICES

BIBLIOGRAPHY

Calderón Publicidad. "Algunas consideraciones acerca de la formulación de una estrategia de comunicación para el programa de privatización de las empresas del estado." 1987.

__________. "Programa de proyección pública: Comisión de Privatización; Grupo Técnico de Trabajo." N.D.

Center for Privatization. "Privatization of State-Owned Enterprises Technical Assistance Project, USAID/Honduras: Executive Summary." Washington, D.C., 1986.

__________. "Task 4 Report: Project Analysis-Economic Impact." Prepared for USAID, Washington, D.C., 1986.

__________. "Task 7 Report: Institutional Configuration." Prepared for USAID, Washington, D.C., 1986.

Comisión para la Privatización. "Informe de progreso, GTT." August 19, 1988.

Corporación Nacional de Inversiones. "Decretos 161/85-197/85 y su reglamento para traspaso de empresas al sector privado." N.D.

__________. "Estudio técnico económico y plan de traspaso." Tegucigalpa, 1986.

__________. "Presupuesto, 1987."

"Project Agreement Between the Republic of Honduras and the U.S.A. for Privatization of State-Owned Enterprise Project," and Amendments. August 29, 1986.

República de Honduras. "Decreto No. 149-88." N.D.

__________. "Labor Legislation." Tegucigalpa, 1986.

__________. "Proyecto de privatización. Plan de trabajo 1987-1988." November 2, 1988.

__________. "Tax Legislation." Tegucigalpa, 1986.

Rosenberg, Mark B. "Privatization: Obstacles and Opportunities," Project #7, July 1986. Prepared for Bureau of Private Enterprise USAID.

Segura, Jorge F. "Privatization of SOEs in Honduras," March 24, 1987. Private Sector Officers Workshop.

USAID. "Amendment to Memorandum of Understanding between the USAID, Mendieta y Asociados and the Center for Privatization. Privatization of State-Owned Enterprises, Project 522-0289-ESF-1." January 9, 1987.

__________. "Memorandum of Understanding between the USAID, Mendieta y Asociados and the Center for Privatization, Amendment No. 2." Privatization of State-Owned Enterprises Project 522-0288-ESF-1." June 2, 1988.

__________. Project Paper, "Privatization of State-Owned Enterprises," N.D.

Vourvoulias, Jason L. Memorandum to J.T. Grossman/V. Paz, "Status and Problems of Privatization Process." N.D.

__________. "Memorandum to James T. Grossman and Victor Paz," October 26, 1988.

\0

APPENDIX B

## APPENDIX B

### LIST OF PERSONS INTERVIEWED

Aguero Neda, Raul - National Party Deputy
Arevalo, Roberto - CONADI
Arriaga, Ubodoro - GOH Liaison to TWG
Artiles, Andres Victor - CTH
Avila, Mario - Ministry of Finance
Bueso, Guillermo - Banco Atlantida
Calderon, Carlos - Calderon Publicity
Castillo, Roberto - National Party Deputy
Craniotis, Jorge - Executive President, CONADI
Faccussee, Soad de - National Party Deputy
Falk, Carlos - Presidential Advisor
Garcia Velasquez, Neptali - CTH
Gomez Andino, Jorge - Honduran Private Enterprise Council
Hernandez, Manuel - COHDEFOR
Hernandez, Efrain - Central Bank
Hernandez, Hector - FUTH
Izaguirre, Ellen - Administrative Manger, TWG
Johnson, Gordon O.F. - Center for Privatization
Lanza, Gladys - STENEE
Luna, Joaquin - Executive Secretary, COHEP
Mairena, Nelson - Director, Legal Services, CONADI
Medina, Ramon - Director, FIDE
Meza, Jose Angel - FECESITLIH
Ochoa, Valdemar - Valuation Commission
Perez, Jose Antonio - COHEP
Reyes, Carlos H. - STIBYS
Romero, Col. Alvaro - Armed Forces
Satruch, Rivera - Vice Minister, Ministry of Finance
Schroeder, Carlos - Inter-American Development Bank
Sconce, Joe - Center for Privatization
Segovia, Jorge - Manager, COHDEFOR
Segura, Jorge - TWG
Sigmund, Anne - USIS
Trochez, Miguel Angel - General Accounting Office
Valle, Mariano - TWG
Villanueva, Benjamin - Director, COHEP
Vourvoulius, Jason - TWG
Zelaya, Rudy - Director, CONADI/San Pedro Sula

# APPENDIX C

**<u>JUICIOS GANADOS POR CONADI EN LOS TRIBUNALES DE LA REPUBLICA DE 1986 A 1988.</u>**

1.1 FRANCISCO ANTONIO FERNANDEZ GUZMAN contra CONADI

Naturaleza : Tercería de Prelación

Monto: L. 140,000.00

Observación: JUICIO GANADO EN CASACION.

1.2 JOSE RAMON PAZ contra CONADI

Naturaleza: Demanda Ordinaria de Pago de Honorarios Profesiona-les.

Monto: L. 78,000.00

Observación: JUICIO GANADO EN CASACION.

1.3 CONADI contra PRODUCTOS INDUSTRIALES DE CONCRETO, S.A.

Naturaleza: Ejecutiva

Monto: L. 3,234,296.00

Observación: SE LLEVO A CABO EL REMATE DE LA EMPRESA.

14. CONADI Vrs. GRANOS INDUSTRIALIZADOS, S.A.

Naturaleza: Ejecuti[illegible]

Monto: L. 1,505,231.72

Observación: SE LLEVO A CABO EL REMATE DE LA EMPRESA.

1.5 CONADI Vrs. METALES Y ALUMINIOS, S.A.

Naturaleza: Ejecutiva

Monto: L. 2,800,000.00

Observación: SE LLEVO A CABO EL REMATE DE LA EMPRESA.

1.6 CONADI contra PAPELES Y CARTONES, S.A.

Naturaleza: Ejecutiva



UCIGALPA. D. C., APARTADO POSTAL 842
PEDRO SULA. APARTADO POSTAL 745
DURAS. C. A.
TELEX-1102 CONADI HT. CABLE CONADI
TELEFONOS: 33-2500
SAN PEDRO SULA. 53-1707 53-2654

Monto: L. 17,593,872.00
Observación: SE LLEVO A CABO EL REMATE DE LA EMPRESA.

1.7 CONADI contra MEJORES ALIMENTOS DE HONDURAS, S.A.
Naturaleza: Ejecutiva
Monto: L. 39,000,000.00
Observación: SE LLEVO A CABO EL REMATE DE LA EMPRESA.

1.8 CONADI contra HOTEL LINCOLN, S.A.
Naturaleza: Demanda Ejecutiva
Monto: L. 15,428,045.63
Observación: SE LLEVO A CABO EL REMATE DE LA EMPRESA.

1.9 CONADI - FUAD HASBUM TOUCHE
Naturaleza: Ejecutiva
Monto: L. 339,450.00
Observación: SE GANO EN PRIMERA INSTANCIA, SE ESPERA QUE LA CORTE CONFIRME.

**JUICIOS PROMOVIDOS POR Y CONTRA CONADI, EN LOS CUALES SE HA DICTADO SENTENCIA CONTRA LA CORPORACION. DE 1986 A 1988.**

2.1 JOSE RAMON PAZ contra CONADI
Naturaleza: Demanda Ordinaria de Pago de Honorarios Profesionales.
Monto: L. 107,000.00

2.2 CONADI contra COMERCIAL E INVERSIONES GALAXIA
Naturaleza: Demanda Ordinaria de Pago
Monto: L. 13,004,739.37

2.3 CONADI - TEXTILES DE HONDURAS, S.A.
Naturaleza: Demanda Ejecutiva
Monto: L. 30,357,000.00

Observación: SE DECRETO NULIDAD ABSOLUTA DEL JUICIO PROMOVIDO POR LA CORPORACION.

**JUICIOS PROMOVIDOS POR Y CONTRA CONADI EN LOS TRIBUNALES DE LA REPUBLICA Y QUE HAN SIDO TRANSADOS. DE 1986 A 1988.**

3.1 COMERCIAL E INVERSIONES GALAXIA Y QUIMICAS DINANT DE CENTROAMERICA contra CONADI.

Naturaleza: Demanda Ordinaria de Extinción y Reducción - de una garantía.

Monto: Indeterminado

Observación: ESTANDO EL JUICIO EN SEGUNDA INSTANCIA SE --- TRANSO.

3.2 DAGOBERTO MEJIA PINEDA contra CONADI

Naturaleza: Demanda Laboral

Monto: L. 37,000.00

Observación: ESTANDO EL JUICIO EN SEGUNDA INSTANCIA SE --- TRANSO.

3.3 BANCO SOGERIN contra CONADI

Naturaleza: Ordinaria de Nulidad

Monto: L. 7,960,000.00

Observación: SE TRANSO CUANDO EL JUICIO SE ENCONTRABA EN - TERCERA INSTANCIA.

3.4 CARLOS RIGOBERTO SOTO contra CONADI

Naturaleza: Juicio Laboral

Monto: L. 125,000.00

Observaciones: EL PRESENTE JUICIO SE TRANSO EN SEGUNDA INS-- TANCIA.

3.5 BANCO CONTINENTAL, FINANCIERA CONTINENTAL - CONADI - TEXHONSA

Naturaleza: Demanda Ejecutiva

Monto: 395,115.00 - US$ 2,348,691.23

Observación: SE LLEVO A CABO LA TRANSACCION CUANDO SE RE-QUIRIO DE PAGO A CONADI.

Tegucigalpa, D. C., 24 de febrero de 1989